6017/7017

IV Semester 5 Year B.B.A.LL.B./B.Com.LL.B. (Even Sem.) Examination, August/September 2024
FINANCIAL MANAGEMENT

Duration : 3 Hours

Max. Marks : 80

Instructions : 1. Answer all five Units.
2. One essay type question and short note/problems is compulsory from each Unit.
3. Figures to the right indicate marks.
4. Answer should be written in English only.

UNIT – I

Q. No. 1. a) A company has on its books the following amount and specific cost of each type of capital. Marks : 10

Type of Capital	**Book Value** ₹	**Market Value** ₹	**Specific Cost%**
Debt	4,00,000	3,80,000	5
Preference shares	1,00,000	1,10,000	8
Equity shares	6,00,000	12,00,000	15
Retained earnings	2,00,000	–	13

Determine the WACC using book value and market value weights.

OR

Q. No. 1. a) Calculate the cost of capital in the following cases. Marks : 10

i) A 5 year ₹ 100 debenture of a firm can be sold for a net price of ₹ 96.50. The coupon rate of interest is 14% per annum and the debenture will be redeemed at 5% premium on maturity. The firm's tax is 40%.

ii) A company issues preference shares of face value ₹ 50 each carrying 14% dividend and realises ₹ 42 per share. The shares are repayable after 12 years at par.

Q. No. 1. b) Explain the importance of cost of capital. Marks : 6

OR

Q. No. 1. b) Define financial management. Explain the scope of financial management. Marks : 6

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UNIT – II

Q. No. 2. a) i) A Co. expects a net income of ₹ 1,00,000. It has ₹ 2,50,000, 8% debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax). Marks : 10

ii) If the debenture debts are increased to ₹ 4,00,000, what shall be the value of the firm and the overall capitalization rate ?

OR

Q. No. 2. a) Define dividend policy. Explain the factors determining dividend policy. Marks : 10

Q. No. 2. b) Write a note on Modigliani and Miller approach of capital structure. Marks : 6

OR

Q. No. 2. b) Explain the objectives of dividend policy. Marks : 6

UNIT – III

Q. No. 3. a) A cost sheet of a company provides the following particulars. Marks : 10

Elements of cost	**Amount (per Unit)**
	₹
Raw Materials	140
Direct Labours	60
Overheads	70
Total cost	270
Profit	30
Selling price	300

Further particulars available are

* Raw Materials are in stock on an average for one month.
* Materials are in process on an average for half a month.
* Finished goods are in stock on an average for one month.
* Credit allowed by suppliers is one month.
* Credit allowed to customers is two months.
* Lag in payment of wages is 1.5 weeks.
* Lag in payment of overhead expenses is one month.
* ¼ of the output is sold against cash.
* Cash in hand and at bank is expected to be ₹ 50,000.

You are required to prepare a statement showing the working capital needed to finance, a level of activity of 2,40,000 units of production.

You may assume that production is carried on evenly throughout the year. Wages and overhead accrue similarly and a time period of 4 weeks is equivalent to a month.

OR

Q. No. 3. a) You are given the following estimates and are instructed to add 10% margin for contingencies. Marks : 10

i)	Amount blocked up for stocks :	₹
	Stocks of finished product	5,000
	Stocks of stores, materials etc.	8,000
ii)	Average credit given :	
	Inland sales – 6 weeks credit	3,12,000
	Export sales – 1½ weeks credit	78,000
iii)	Lag in payment of wages and other outgoings :	
	Wages – 1½ weeks	2,60,000
	Stocks of materials etc-1½ months	48,000
	Rent, royalties etc – 6 months	10,000
	Clerical staff-½ month	62,400
	Manager-½ month	4,800
	Miscellaneous expenses-1½ month	48,000
iv)	Payment in advance	
	Sundry expenses (paid quarterly in advance)	8,000
v)	Undrawn profit on the average throughout the year	11,000

Compute the amount of working capital required.

Q. No. 3. b) Write a short note on types of working capital. Marks : 6

OR

Q. No. 3. b) Write a note on receivable management. Marks : 6

UNIT – IV

Q. No. 4. a) Calculate IRR for the following data. Marks : 10

		Project
Cost		22000
Cash inflows		
Year	1	12,000
	2	4,000
	3	2,000
	4	10,000

OR

Q. No. 4. a) From the following information, calculate NPV @ 10% p.a. pay back period and profitability index. Marks : 10

Initial outlay ₹ 1,00,000
Estimated life 5 years
Scrap value ₹ 10,000
Profit after tax before depreciation.

Year	1	6000
	2	14000
	3	24000
	4	16000
	5	Nil

The discount factor @ 10%.

Year	1	0.909
	2	0.826
	3	0.751
	4	0.683
	5	0.621

Q. No. 4. b) Write a note on capital structure of MNC's. Marks : 6

OR

Q. No. 4. b) Write a short note on importance of capital budgeting. Marks : 6

UNIT – V

Q. No. 5. a) XYZ Ltd. is considering merger with ABC Ltd. Marks : 10

Particulars	**XYZ**	**ABC**
EAT (₹)	4,00,000	1,00,000
No. of shares (₹)	2,00,000	1,00,000
Market price	25	12.5
EPS	2	1

i) What is the pre-merger, EPS and PE ratios of both the company ?
ii) If ABC Ltd.'s PE ratio is 8, what is its current market price ?
iii) What must be exchange ratio for XYZ Ltd.'s pre and post-merger EPS to be the same ?

OR

Q. No. 5. a) Explain various types of merger and acquisition. Marks : 10

Q. No. 5. b) State the reasons for merger. Marks : 6

OR

Q. No. 5. b) Explain the process of acquisition. Marks : 6