



6017/7017

**IV Semester 5 Year B.B.A.LL.B./B.Com.LL.B.
Examination, March/April 2024 (Odd Sem.)
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 completely.**
- 5. Use simple calculator only.**

UNIT – I

Q. No. 1. a) What is financial management ? Explain the objectives of financial management.

Marks : 10

OR

Q. No. 1. a) Following are the details regarding the capital structure of a company.

Marks : 10

Sources	Book Value	Market Value	Cost
Debentures	8,00,000	7,60,000	10%
Preference shares	2,00,000	2,20,000	15%
Equity shares	12,00,000	18,00,000	30%
Retained earnings	4,00,000	6,00,000	15%

You are required to determine the weighted average cost of capital using (a) Book value as weights (b) Market value as weights.

Q. No. 1. b) Write a short note on CAPM.

Marks : 6

OR

Q. No. 1. b) Write a short note on factors affecting weighted average cost of capital.

Marks : 6

P.T.O.



UNIT – II

Q. No. 2. a) Explain various factors affecting dividend policy. Marks : 10

OR

Q. No. 2. a) A Ltd. has currently an all equity capital structure consisting of 15,000 equity shares of Rs. 100 each. The management is planning to raise another Rs. 25 lakhs to finance a major programme of expansion and is considering three alternative methods of financing : Marks : 10

- i) To issue 25,000 equity shares of Rs. 100 each.
 - ii) To issue 25,000, 8% debentures of Rs. 100 each.
 - iii) To issue 25,000, 8% preference shares of Rs. 100 each.
- The company's expected earnings before interest and taxes will be Rs. 8 lakhs. Assuming a corporate tax rate of 50%, determine the Earnings Per Share (EPS) in each alternative and comment which alternative is best and why ?

Q. No. 2. b) Write a short note on MM approach under capital structure theory. Marks : 6

OR

Q. No. 2. b) Write a short note on MM approach of dividend policy. Marks : 6

UNIT – III

Q. No. 3. a) Explain the factors influencing the working capital requirements. Marks : 10

OR

Q. No. 3. a) The Board of Directors of Sourav Co. Ltd. requests you to prepare a statement showing the working capital requirements forecast for a level of activity of 72,000 units of production p.a. The following information is available for your calculations. Marks : 10

Particulars	Per Unit
Raw material	90
Direct labour	40
Overheads	75
Total cost	205
Profit	60
Selling price per unit	265



- 1) Raw materials are in stock, on average 1 month.
- 2) Finished goods are in stock, on average 1 month.
- 3) Credit allowed by suppliers, 1 month.
- 4) Time lag in payment from debtor, 2 months.
- 5) Lag in payment of wages, $\frac{1}{2}$ month.
- 6) Lag in payment of overheads, 1 month 20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 30,000. It is to be assumed that production is carried out evenly throughout the year.

Q. No. 3. b) Write a short note on motives of holding inventories. Marks : 6

OR

Q. No. 3. b) Write a short note on operating cycle. Marks : 6

UNIT – IV

Q. No. 4. a) Explain various factors peculiar to MNC. Marks : 10

OR

Q. No. 4. a) A US MNC is planning to install a manufacturing unit to produce 50,000 units of an automobile component in India. This involves an investment outlay of Rs. 50,00,000. The plant is expected to have a useful life of 5 years with Rs. 10,00,000 salvage value. MNC will follow the Straight Line Method of depreciation. To support running of business, working capital of Rs. 5,00,000 will have to be invested, variable cost of production will be Rs. 20/Unit. Fixed cost per annum is estimated at Rs. 2 million. The forecasted selling price is Rs. 70 per unit. The MNC will be subjected to 40% tax in India. The required rate of return is 15%. It is forecasted that the rupee will depreciate in relation to US \$ @ 3% p.a. with an initial exchange rate of Rs. 48 per \$. Advise the MNC regarding the financial viability of the project.

Marks : 10



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

OR

Q. No. 4. b) Write a short note on Management of working capital by an MNC. Marks : 6

UNIT – V

Q. No. 5. a) Explain merger and acquisition. Explain various reasons behind merger. Marks : 10

OR

Q. No. 5. a) Firm A is studying the possible acquisition of Firm B by way of merger. The following data are available in respect of the firms. Marks : 10

Particulars	Firm A	Firm B
Earnings after tax	2,00,000	60,000
No. of equity shares	40,000	10,000
Market value per share	15	12

Case 1 : If the merger goes through by exchange of equity shares and exchange ratio is based on the current market price. What are the new earnings per share for Firm A ?

Case 2 : Firm B wants to be sure that if earnings available to the shareholder will not be demounted by the merger.

Case 3 : What should be the exchange ratio in that case ?

Q. No. 5. b) Write a short note on types of merger. Marks : 6

OR

Q. No. 5. b) Benefits of merger. Marks : 6