

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

P.T.O.



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.
- * $\frac{1}{4}$ 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

- What is the pre-merger, EPS and PE ratios of both the company ?
- If ABC Ltd.'s PE ratio is 8, what is its current market price ?
- 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