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0432/3055

Fourth Semester 5 Years B.B.A. LL.B./B.Com. LL.B. Examination, Jan./Feb. 2025 (Odd Sem.)
FINANCIAL MANAGEMENT

Duration : 3 Hours | Max. Marks : 100

Instructions :
1. **Answer Q. No. 9 and any five of the remaining questions.**
2. **Q. No. 9 carries 20 marks and the remaining questions carry 16 marks each.**
3. **Answers should be written in English completely.**

Q. No. 1. Following are the details of R.L. Ltd. Marks : 16

Types of capital	Book Value	Market Value	Specific Cost
a) Debt	4,00,000	3,80,000	5%
b) Preference share capital	1,00,000	1,10,000	8%
c) Equity shares	6,00,000	12,00,000	15%
d) Retained earnings	2,00,000	–	13%
	13,00,000	**16,90,000**	

Determine the weighted average cost of capital using :

i) Book value weights

ii) Market value weights

Q. No. 2. What is capital structure ? Explain briefly the different theories of capital structure. Marks : 16

Q. No. 3. What do you mean by dividend policy ? Explain the different factors that determine the dividend policy of the firm. Marks : 16

P.T.O.

Q. No. 4. The Board of Directors of Ajay Engineering Ltd., request you to advise them the average amount of working capital required in their working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies. Marks : 16

		Rs.
i)	Amount blocked up for stocks	
	Stock of finished products	7,000
	Stock of stores materials	10,000
ii)	Average credit given	
	Inland sales – 6 weeks credit	2,08,000
	Export sales 1½ weeks credit	78,000
iii)	Lag in payment of expenses	
	Wages 2 weeks	2,60,000
	Stock of materials 1½ month	48,000
	Rent and royalties 6 months	10,000
	Clerical staff ½ month	62,400
	Manager salary ½ month	4,800
	Miscellaneous expenses 1½ months	48,000
iv)	Payment in advance	
	Sundry expenses	8,000
	(paid quarterly in advance)	
v)	Undrawn profit on the average	
	throughout the year	13,000

Q. No. 5. Define working capital. What are the different classification of working capital ? Explain the importance of adequate working capital. Marks : 16

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Q. No. 6. A company is considering to purchase a machine. Two alternative machines are available – Machine X and Machine Y, each costing Rs. 50,000. Earnings after taxation are expected to be as follows : Marks : 16

Year	Estimated Net Cash Flows	
	Machine X	Machine Y
	Rs.	Rs.
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to

a) PBP b) ROI c) NPV at 10%

Assume straight line method of depreciation the discount factor at 10% is as under :

Year :	1	2	3	4	5
Discount factor at 10% :	0.909	0.826	0.751	0.683	0.621

Q. No. 7. R company wishes to take over L company. The financial details of the two companies are as under : Marks : 16

Liabilities	R	L
	Rs.	Rs.
15% Debentures	75,000	25,000
Profit and loss A/c	1,90,000	20,000
Share premium A/c	–	10,000
Equity shares of Rs. 50 per share	5,00,000	2,50,000
Preference shares	1,00,000	–
	8,65,000	**3,05,000**
Assets :		
Current assets	2,55,000	1,30,000
Fixed assets	6,10,000	1,75,000
	8,65,000	**3,05,000**

Annual profit available for equity shareholders after tax and preference dividend	R	L
	1,20,000	75,000
Market price/equity share	100	130

What offer do you think that the R company could make to L company in terms of exchange ratio based on :

i) Net assets value
ii) Earnings per share and
iii) Market value of share.

Which method would you prefer from R company's point of view ?

Q. No. 8. Write short note on **any two** of the following : Marks : 2×8=16

(a) Functions of financial management.

(b) Multinational working capital management.

(c) Inventory management.

Q. No. 9. Solve **any two** of the following : Marks : 2×10=20

(a) A Ltd., issues 1,00,000, 10% preference share capital of Rs. 100 each. The cost of the issue is Rs. 5 per share, calculate the cost of preference share capital if these shares are issued at

i) Par value
ii) 10% discount
iii) 10% premium.

(b) A firm is considering two financial plans with a view to examine their impact on EPS. The total funds required for investment in assets are ₹ 5,00,000.

Financial Plan	**Plan I**	**Plan II**
Debt (Interest @ 10%)	4,00,000	1,00,000
Equity shares (₹ 10 each)	1,00,000	4,00,000
	5,00,000	5,00,000
No. of equity shares	10,000	40,000

The EBIT are assumed at ₹ 50,000 and ₹ 75,000 respectively and rate of tax to be taken at 50% p.a.

Calculate EPS for both the financial plans and comment which plan is suitable ?

(c) Briefly, explain Capital Asset Pricing Model (CAPM).