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

Duration : 3 Hours | Max. Marks : 80

Instructions : 1. **Answer any five questions from group (a). Each question carries 10 marks.**
2. **Answer any five questions from group (b). Each question carries 6 marks.**
3. **Answers should be written only in English.**

UNIT – I

Q. No. 1. a) Sri company has on its book, the following capital structure. Marks : 10

	₹
Equity share	40,00,000
6% preference share	10,00,000
8% debentures	30,00,000
Total	**80,00,000**

Market price of equity share is ₹ 20. It is expected that the company will pay dividend of ₹ 2 per share which will grow at 7%. The tax rate may be presumed at 40%.

a) Calculate WACC on existing structure.

b) Calculate the new WACC when the Co. raises an addition of ₹ 20,00,000 debt by issuing 10% debentures. This would increase the expected dividend to ₹ 3 and leave growth rate unchanged but price of share will fall to ₹ 15 per share.

OR

Q. No. 1. a) Following are the details regarding capital structure of Tara Co. Ltd. Marks : 10

Sources	**Book value**	**Market value**	**Specific cost**
	₹	₹	
Debentures	4,00,000	3,80,000	5%
Equity shares	6,00,000	12,00,000	15%
Preference shares	1,00,000	1,10,000	8%
Retained earnings	2,00,000	–	13%

You are required to calculate weighted average cost of capital using :

a) Book value as weights

b) Market value as weights.

P.T.O.

Q. No. 1. b) Write a short on Sharpe Litner model. Marks : 6

OR

Q. No. 1. b) Write a short note on cost of capital. Marks : 6

UNIT – II

Q. No. 2. a) Define "Dividend policy" and explain the types of dividend policy with examples. Marks : 10

OR

Q. No. 2. a) A company belongs to a risk class for which the appropriate discount rate is 10%. It currently has 25000 outstanding shares selling at ₹ 100 each. The firm is contemplating a dividend payment of ₹ 5 per share at the end of current financial year. It expects to have a net income of ₹ 2,50,000 and a proposal for making new investments of ₹ 5,00,000. Show that under the Modigliani and Miller's assumptions. The payment of dividend does not affect the value of the firm. Marks : 10

Q. No. 2. b) Define capital structure. Explain the factors determining capital structure. Marks : 6

OR

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

UNIT – III

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

Elements of cost	**per unit ₹**
Raw materials	8
Direct labour	3
O/H (exclusive depreciation)	6
Total	**17**

The following further particulars are available :

Selling price	₹ 20 per unit
Level of activity	₹ 1,04,000 units of output per annum (52 weeks)
Raw materials in stock	on an average 4 weeks
Processing time	on an average 2 weeks
Finished goods in store	on an average 4 weeks
Credit period :	
a) Customers	on an average 8 weeks
b) Suppliers of materials	on an average 4 weeks

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Lag in payment :

a) Wages on an average 1½ weeks

b) Overhead expenses on an average 2 weeks

75% of the output is sold on credit basis. Cash on hand and at bank is expected to be ₹ 5,000.

You are required to prepare a statement showing the working capital requirements.

OR

Q. No. 3. a) Define working capital management. Explain the importance of working capital. Marks : 10

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

OR

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

UNIT – IV

Q. No. 4. a) ABC Ltd. is considering an investment proposal to install a new machine at a cost of ₹ 1,00,000. The machine has expected life of 5 years and no salvage value. The Co. pays 40% tax. The cash flows before depreciation and tax are as under : Marks : 10

Year	Cash flow (CFBDT) ₹	PV factor 10% discount
1	15,000	0.909
2	16,000	0.826
3	18,500	0.751
4	26,600	0.683
5	27,000	0.621

Calculate :

a) Average rate of return

b) NPV at 10% discount rate

c) Profitability index at 10% discount rate.

OR

Q. No. 4. a) A company is considering to purchase a machine from two available machines A and B are each costing ₹ 2,50,000. In comparing the profitability of the machines, a discounting rate of 10% is to be used and machine is to be written off in five years by straight line method of depreciation cash inflows after tax are expected as under.

Year	Machine A	Machine B
	₹	₹
1	3,00,000	50,000
2	4,00,000	1,50,000
3	5,00,000	2,00,000
4	3,00,000	3,00,000
5	2,00,000	2,00,000

Indicate which machine would be profitable using
a) NPV method
b) Profitability index method
c) ARR. Marks : 10

Q. No. 4. b) What is capital budgeting ? Explain the process of capital budgeting. Marks : 6

OR

Q. No. 4. b) Write a short note on MNC working capital management. Marks : 6

UNIT – V

Q. No. 5. a) What do you mean by merger and acquisition ? Discuss the different types of merger. Marks : 10

OR

Q. No. 5. a) Milan Co. wants to acquire Megha Co. by exchange of its shares on 1 : 1 basis. The following financial information is available before announcement of Merger. Marks : 10

Particulars	Megha Co.	Milan Co.
Earning per share	2	2
Market price per share	40	20
Price earning ratio	20	10
No. of shares (₹ 000)	400	400
Profit after tax (₹ 000)	800	800
Total market value (₹ 000)	16,000	8,000

Calculate after merger :
a) EPS after merger
b) P/E ratio
c) MPS.

Q. No. 5. b) Write a short note on reasons for merger. Marks : 6

OR

Q. No. 5. b) Write a note on companies recently merged (list of any 6 companies merged). Marks : 6