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Fourth Semester 5 Year B.B.A. LL.B./B.Com. LL.B. Examination, June/July 2025 (Even 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 either in English or Kannada completely.**

Q. No. 1. What is capital structure ? Explain the factors influencing capital structure. Marks : 16

Q. No. 2. Define working capital management. Discuss the determinants of working capital. Marks : 16

Q. No. 3. Explain the concept of cost of capital. Marks : 16

Q. No. 4. What is dividend policy ? Discuss the factors influencing dividend policy. Marks : 16

Q. No. 5. What do you mean by mergers and acquisitions ? Discuss the reasons and types of merger. Marks : 16

Q. No. 6. The following is the capital structure of a company : Marks : 16

Source of capital	Book Value (₹)	Market Value (₹)
Equity share capital (₹ 100 each)	10,00,000	18,00,000
9% Preference shares of ₹ 100 each	4,00,000	4,40,000
11% Debentures	8,00,000	6,60,000
Retained earnings	4,00,000	–
	26,00,000	**29,00,000**

The current market price of the company's equity share is ₹ 200. For the last year the company had paid equity dividend at 20% and its dividend is likely to grow 6% every year. The corporate tax rate is 40% and shareholders personal income tax rate is 20%.

Calculate :

i) Cost of capital for each source of capital.
ii) Weighted average cost of capital on the basis of book value weights.
iii) Weighted average cost of capital on the basis of market value weights.

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Q. No. 7. A proforma cost sheet of a company provides the following particulars : Marks : 16

Elements of Cost :

Material	40%
Labour	20%
Overheads	20%

The following further particulars are available :

a) It is proposed to maintain a level of activity of 2,00,000 units.
b) Selling price is ₹ 12 per unit.
c) Raw materials are expected to remain in stores for an average period of one month.
d) Material will be in process, on average of half a month and is assumed to be consisting of 100% raw material, wages and overheads.
e) Finished goods are required to be in stock for an average period of one month.
f) Credit allowed to debtors is two months.
g) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.
You are required to prepare a statement of working capital requirements.

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

(a) Capital Asset Pricing Model

(b) Methods of capital budgeting

(c) Theories of capital structure.

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

(a) Company B is being acquired by company A on share exchange basis. The relevant data for the two companies are given below :

	Co. A	Co. B
No. of shares (₹ in lakhs)	6	4
Earnings after tax (₹ in lakhs)	30	12
EPS (₹)	5	3
Price-earning ratio	16	8

You are required to determine :

a) Pre-merger market value per share.
b) The maximum share exchange ratio that company A should offer without dilution of
   i) EPS
   ii) Market value per share.

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(b) A company is considering to purchase a machine. Two machines are available : X and Y.
Each costing ₹ 60,000
Earnings after taxation are expected to be as follows :

Years	Machine X (₹)	Machine Y (₹)
1	25,000	15,000
2	30,000	25,000
3	35,000	30,000
4	25,000	40,000
5	20,000	30,000

Evaluate the two alternatives according to :
Net present value method @ 10%.
Assume straight line method of depreciation.
The discount factor at 10% is as under :

Year	1	2	3	4	5
Discount factor @ 10%	0.909	0.826	0.751	0.683	0.671

(c) Gurudatta Ltd. has equity share capital of ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for modernisation plans.
The company plans the following financing schemes :

a) All equity shares.
b) ₹ 1,00,000 in equity shares and ₹ 2,00,000 in debt @ 10% p.a.
c) All debt at 10% p.a.
d) ₹ 1,00,000 in equity shares and ₹ 2,00,000 in preference share capital with the rate of dividend at 8%.

The company has estimated EBIT at ₹ 1,50,000. The corporate rate of tax is 50%.
Calculate EPS in each case and Comment as to which capital structure is suitable.
