3055

IV Semester 5 Years B.Com. LL.B. Examination, March/April 2021
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. Answer should be written in English completely.
4. Use simple calculator.

Q. No. 1. From the following capital structure of a company, calculate the overall cost of capital, using
(a) Book value of weights and
(b) Market value of weights. Marks : 16

Source of capital	**Book Value (Rs.)**	**Market Value (Rs.)**
Equity shares	2,00,000	3,00,000
16% Debentures	60,000	61,200
10% short-term loans	40,000	40,000

The cost of equity share capital is 20%, Tax rate for such company is 50%.

Q. No. 2. Explain the methods of Capital Budgeting. Marks : 16

Q. No. 3. Explain MM approach of dividend Theory. Marks : 16

Q. No. 4. What is Mergers ? Explain the types of Mergers. Marks : 16

Q. No. 5. Explain the factors influencing the working capital requirements. Marks : 16

Q. No. 6. From the following information calculate pay-back period of both the Machines Raja and Rani. Marks : 16

Particulars	**Machine Raja**	**Machine Rani**
Cost of each Machine	5,00,000	6,00,000
Life	5 years	6 years
Co. Tax rate	50%	50%

P.T.O.

PBDT (Profit Before Dep. and Tax)

1^{st} year	1,10,000	1,80,000
2^{nd} year	1,40,000	2,10,000
3^{rd} year	1,70,000	2,40,000
4^{th} year	1,60,000	1,90,000
5^{th} year	1,30,000	2,00,000
6^{th} year		1,00,000

Straight Line Method of depreciation is followed.

Q. No. 7. From the following information prepare a statement showing the estimated working capital needs, in total and for each Constituent. Marks : 16

Budgeted Sales	Rs. 52,00,000 per annum
Analysis per unit of sales	Rs.
Raw materials	25
Direct Labour	45
Overheads	20
Cost of sales	90
Profit	10
Sales price per unit	100

It is estimated that

(a) Raw materials will be carried in stock for two weeks and finished goods for three weeks.

(b) Factory processing will take four weeks.

(c) Suppliers will give four weeks credit and customers will require seven weeks credit.

It may be assumed that production and overheads arise evenly throughout the year.

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

(a) Functions of financial management.

(b) Types of dividend policies.

(c) Working capital management

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

(a) Calculate the average rate of return for Projects A and B from the following :

	Project A	**Project B**
Investments	₹ 20,000	₹ 30,000
Expected Life (no solvage value)	4 years	5 years

Projected Net income (after interest, depreciation and taxes)

Years	**Project A (₹)**	**Project B (₹)**
1	2,000	3,000
2	1,500	3,000
3	1,500	2000
4	1,000	1,000
5	–	1,000
	6,000	**10,000**

If the required rate of return is 12% which project should be undertaken ?

(b) Company A whishes to takeover company B. The financial details of the two companies are as follows :

Particulars	**Company A (Rs.)**	**Company B (Rs.)**
Equity shares of Rs. 10 each	1,00,000	50,000
Share premium	–	2,000
P & L A/c	38,000	4,000
Preference shares	20,000	–
10% debentures	15,000	5,000
	1,73,000	**61,000**
Fixed Assets	1,22,000	35,000
Net current assets	51,000	26,000
	1,73,000	**61,000**

Annual profit available to equity shareholders (Rs.)	24,000	15, 000
Market price per share (Rs.)	24	27
P/E ratio	10	9

What offer do you think Company A could make to Company B in terms of exchange ratio based on :

(i) Net assets value

(ii) E.P.S.

(iii) M.P.S

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

(c) A company issues ₹ 10,00,000 10% redeemable debentures at a discount of 5%. The costs of floatation to ₹ 30,000. The debentures are redeemable after 5 years. Calculate before- tax and after-tax cost of debt assuming a tax rate of 50%.
