



IV Semester 5 Year B.B.A.LL.B./B.Com. LL.B. Examination,
October/November 2021
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.

Q. No. 1. (a) From the following capital structure of a company, calculate the overall cost of capital using Marks : 10

- (a) Book value weights.
- (b) Market value weights.

Source	Book value	Market value
Equity share capital (₹ 10 per share)	45,000	90,000
Retained earnings	15,000	—
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance are as follows :
Share capital : 14%, Retained earnings : 13%, Preference share capital : 10%, Debentures : 5%.

Q. No. 1. (b) Explain the significance of cost of capital. Marks : 6

Q. No. 2. (a) Calculate the weighted average cost of capital. Both book value and market value weights after tax for the following. The tax rate is 50%. Marks : 10

Sources of Capital	Book Value	Market Value	Cost of each Source Before Tax
Equity Capital	2,50,000	5,00,000	24.44%
Pref. Capital	1,00,000	1,50,000	27.29%
Debt. Capital	5,00,000	6,50,000	7.99%
Retained Earnings	1,50,000	—	18.33%

Q. No. 2. (b) Explain the role of a Finance Manager. Marks : 6
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Q. No. 3. (a) Define capital structure. Explain the factors determining capital structure. Marks : 10

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

- (1) Traditional approach.
- (2) Net income approach.
- (3) Net operating income approach.

Q. No. 4. (a) PQR Ltd. has 2,00,000 shares outstanding and is planned to declare a dividend to ₹ 5/- at the end of current financial year. The present market price is ₹ 100. The cost of equity capital K_e may be taken at 10%. Using MM model and assuming no taxes, ascertain the price of the company's share as it is likely to prevail at the end of the year. Marks : 10

- (i) When dividend is declared and
- (ii) When no dividend is declared ?

The company expects to have a net income of ₹ 20,00,000 during the year I and is planning to make an investment of ₹ 40,00,000 at the end of the year.

Q. No. 4. (b) Discuss the various types of dividend policy. Marks : 6

Q. No. 5. (a) Krupa Co. Ltd. has requested you to prepare a statement showing the working capital requirement for a level of activity of 1,56,000 units production. The following information is available. Marks : 10

Particulars	Rate per Unit
Raw materials	90
Overheads	75
Direct labour	40
Total cost	205
Profit	60
Selling price	265

- (1) Raw materials are in stock, on an average 1 month.
- (2) Materials are in process, 50% complete for average 2 weeks.
- (3) Finished goods are in stock, on an average 1 month (Holding period).
- (4) Credit allowed by suppliers, one month.



- (5) The lag in payments from debtors is 2 months.
- (6) Lag in payments of wages, 1 and a half weeks.
- (7) Lag in payment of overheads 1 month. 20% of output is sold against cash. Cash in hand and at bank is expected to be 60,000. It is to be assumed that the production is carried on evenly throughout the year. Wages and overheads are occur similarly and a time period of 4 weeks is equivalent to a month.

Q. No. 5. (b) Write the advantages of working capital. Marks : 6

Q. No. 6. (a) What is working capital management ? Explain factors determining working capital management. Marks : 10

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

Q. No. 7. (a) XYZ company is considering an investment proposal to install new machine at a cost of ₹ 1,00,000. The facility has a life of 5 years and no salvage value. The tax rates is 35%. Assume the firm uses straight line depreciation for tax purposes. Marks : 10

Year	CFBT (₹)	PV factor at 10%
1	10,000	0.909
2	10,692	0.826
3	12,769	0.251
4	13,462	0.683
5	20,383	0.621

Calculate :

- (A) Payback period
- (B) ARR
- (C) NPV @ 10%
- (D) PI @ 10%

Q. No. 7. (b) Write a short note on : Marks : 6

- (a) Profitability index method.
- (b) Internal rate of return method.



Q. No. 8. (a) What do you understand by a capital budgeting decision ?
Why is capital budgeting so important to management ? Marks : 10

Q. No. 8. (b) Explain factors influencing capital structure of an MNC. Marks : 6

Q. No. 9. (a) S Ltd. is acquiring P Ltd. The shareholders of T Ltd. would receive 0.8 shares of S Ltd. for each share held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant data for the two companies are as follows : Marks : 10

Particulars	A	B
Net Sales (₹ crore)	700	250
Profit after tax (₹ crore)	120	25
Number of shares (crore)	24	6
Earning per share (₹)	4.83	4
Market value per share (₹)	30	20
Price earning ratio	6.21	5

For the combined company (after merger), you are required to calculate :

- EPS
- P/E ratio
- Market value per share.

Q. No. 9. (b) Write a short note on : Marks : 6

- Types of merger
- Reasons for merger.

Q. No. 10. (a) What do you mean by financial managements ? Briefly explain the functions of financial management. Marks : 10

Q. No. 10. (b) Write a note on Shorpe Linther Model. Marks : 6