0432

Fourth Semester Five Year B.B.A., LL.B. Examination, June 2011
FINANCIAL MANAGEMENT (Course – II)

Duration : 3 Hours Max. Marks : 100

Instructions : 1. Answer **all 5** questions.
2. **One** essay type and one short note question or problem from **each** Unit have to be attempted, which is referred as Part (a) and (b) in **all** the Units.
3. Figures to the **right** indicate marks.

UNIT – I

Q. No.1. a) The capital structure of Sun Ltd. is as follows : Marks : 15

Equity share capital	10,00,000
6% Preference share capital	5,00,000
8% Debentures	15,00,000

The company has made a profit of ₹ 25,000. The company is under 50% tax bracket. It has 1000 equity shares of ₹ 100 each and market price of which is ₹ 145 each and the growth in dividend is 8%.

a) Calculate the weighted average cost of capital.

b) Also calculate the new weighted average cost of capital if the company raises an additional ₹ 10,00,000 debt by issuing 10% debentures. This would result in an increase in the expected dividend by ₹ 5 per share, growth rate in dividend has increased to 9% and the market price will come upto ₹ 150 per share.

OR

P.T.O.

Q. No. 1. a) Following is the capital structure of Supermoon Ltd.

Sources	**Amount**	**Specific cost**
Equity shares of ₹ 10 each	25,00,000	12%
Preference shares of ₹ 10 each	10,00,000	10%
10% debentures of ₹ 10 each	15,00,000	5%

Presently debentures are traded in the market at 98%, preference shares at ₹ 12 per share and equity share at ₹ 15 per share.

Find out weighted average cost of capital using book value and market value method.

i) Based on weights ii) Based on total cost.

Q. No. 1. b) Explain how an empirical evaluation of a model is done. Marks : 5

OR

Q. No. 1. b) Explain the advantages and limitations of cost of capital.

UNIT – II

Q. No. 2. a) DMK Ltd. has 2,00,000 shares outstanding and is planning 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.

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. Also the value of the firm. Marks : 15

OR

Q. No. 2. a) What are the factors that influence dividend policy ?

Q. No. 2. b) Explain traditional proposition V/s M Hypothesis in dividend policy. Marks : 5

OR

Q. No. 2. b) Forms of dividend policy.

UNIT – III

Q. No. 3. a) You are given below the estimates. As a finance manager, set up your calculations for the average amount of the working capital required for the year ending 30-09-2010 after making a provision of 20% for contingencies. Marks : 15

	₹
Stock of finished products	5,000
Stock of stores, materials etc.	10,000
Domestic credit sales – 6 weeks	1,52,000
Export credit sales – 3 weeks	39,000
Lag in payment of wages and other outgoings :	
– Wages – 1.5 weeks	1,30,000
– Cost of materials 1.5 months	24,000
– Rent – 6 months	5,000
– Clerical staff – 0.5 month	31,200
– Manager – 0.5 month	2,400
– Miscellaneous expenses – 1.5 months	24,000
Prepaid sundry expenses – Quarterly	4,000

OR

Q. No. 3. a) What is working capital management ? Explain the factors responsible for working capital management. Marks : 5

Q. No. 3. b) What is the significance of working capital management ? Marks : 5

OR

Q. No. 3. b) What are the different techniques being adopted while managing inventories ? Explain them. Marks : 5

UNIT – IV

Q. No. 4. a) One of the 3 projects of a company is doing poorly and being considered for replacement. The projects A, B, C are expected to require ₹ 2,00,000, each having estimated life of 5, 4 and 3 years respectively. Anticipated cash flows of the projects are given below (after tax) Marks : 15

Year	**A** ₹	**B** ₹	**C** ₹
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	10,000
4	5,000	30,000	–
5	1,90,000	–	–

Rank each project applying NPV and pay-back period.

OR

Q. No. 4. a) Shiva Ltd. is planning to invest into a new equipment costing ₹ 80,00,000. The equipment has economic life of 5 years with nil salvage value. The tax rate is 40%, original cost method is used for depreciation.

Year	**CFBT (Before dep. and tax)**
1	20,00,000
2	30,00,000
3	40,00,000
4	60,00,000
5	50,00,000

Calculate :

1) Payable period
2) NPV @ 15%
3) ARR
4) IRR
5) BCR @ 15%.

Q. No. 4. b) Brief the financial management of multinational corporations. Marks : 5

OR

Q. No. 4. b) Explain factors determining capital structure of a multinational corporation.

UNIT – V

Q. No. 5. a) Rakesh Ltd. is absorbed by Nitin Ltd. given below are the balance sheets of two companies as on 31-12-2010. Marks : 15

Liabilities	**Rakesh**	**Nitin**	**Assets**	**Rakesh**	**Nitin**
Share capital			Cash in hand	1,750	14,000
4500 shares (equity)			Land and		
of ₹ 135 each	6,07,500	–	Building	5,42,500	11,78,500
20000 Equity shares	–		Plant and		
of 75 each	–	15,00,000	Machinery	3,00,000	10,00,000
General reserves	2,01,750	6,42,500			
Profit and loss A/c	7,500	17,500			
Creditors	27,500	32,500			
	8,44,250	**21,92,500**		**8,44,250**	**21,92,500**

The holder of every 3 shares in Rakesh Ltd. was to receive five shares in Nitin Ltd.

You are required :

1) Pass the closing journal entries and prepare the necessary ledger account.

2) Pass the incorporation journal entries.

3) Prepare the Balance Sheet after amalgamation.

OR

Q. No. 5. a) What is the difference between merger and amalgamation ?

Kiran company wishes to take over Sharad company. The financial details of the two companies are as under :

Liabilities	**Kiran**	**Sharad**
15% debentures	75,000	25,000
Profit and loss account	1,90,000	20,000
Share premium account	–	10,000
Equity shares of ₹ 50/share	5,00,000	2,50,000
Preference shares	1,00,000	–
Total liabilities	**8,65,000**	**3,05,000**

Assets		
Current assets	2,55,000	1,30,000
Fixed assets	6,10,000	1,75,000
Total assets	**8,65,000**	**3,05,000**

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

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

1) Net assets value
2) Earnings per share and
3) Market value of share.

Which method would you prefer from Kiran Company's point of view ?

Q. No. 5. b) Explain different methods of mergers along with examples. Marks : 5

OR

Q. No. 5. b) Explain different types of mergers along with examples.