Fourth Semester 5 Yrs. B.Com.LL.B. Examination, October/November 2021
FINANCIAL MANAGEMENT

Duration : 3 Hours | Max. Marks : 100

Instructions : 1. Answer Q. No. 11 and any five of the remaining questions.
2. Q. No. 11 carries 20 marks and the remaining questions carry 16 marks each.
3. Use simple calculator.

Q. No. 1. What is Financial Management ? Explain the scope and functions of Financial Management. Marks : 16

Q. No. 2. What is Merger ? Explain the reasons for merger. Marks : 16

Q. No. 3. Satyam Computers Ltd. wishes you to determine specific cost and also overall weighted average cost of capital from the information furnished below : Marks : 16

Balance Sheet as on 31-3-2003

Liabilities	Rs.	Assets	Rs.
Current liabilities	9,00,000	Sundry assets	39,00,000
Debentures	9,00,000		
Equity shares	12,00,000		
Retained earnings	4,50,000		
Preference shares	4,50,000		
	39,00,000		39,00,000

P.T.O.

Anticipated external financing information :

(a) 20 years, 8% debentures of Rs. 2,500 face value, redeemable at 5% premium sold at par, 2% floatation cost.

(b) 10% preference shares, sale price Rs. 100 per share, 2% floatation cost.

(c) Equity shares, sale price Rs. 115 per share, floatation cost Rs. 5 per share.

The corporate tax rate is 35% and expected growth is 5% per year. The expected dividend at the end of current financial year is Rs. 11 per share.

Assume that the company is satisfied with the present capital structure and intends to maintain it.

Q. No. 4. 'A' Ltd. wants to acquire 'T' Ltd. by exchanging 0.5 of its shares for each share of 'T' Ltd. The relevant financial data are as follows : Marks : 16

Particulars	**A Ltd.**	**T Ltd.**
EAT (Rs.)	18,00,000	3,60,000
Equity share outstanding	6,00,000	1,80,000
EPS (Rs.)	3	2
P/E ratio (times)	10	7
Market price/share (Rs.)	30	14

Required

(a) What is the number of equity shares required to be issued by 'A' Ltd. for acquisition of 'T' Ltd ?

(b) What is the EPS of 'A' Ltd. after the acquisition ?

(c) Determine the equivalent earnings per share of 'T' Ltd.

(d) Determine the market value of the merged firm.

Q. No. 5. What is capital structure ? Explain the factors influencing the capital structure. Marks : 16

Q. No. 6. A company is considering to invest in a project which cost Rs. 50,00,000 and tax rate 40% and straight line method of depreciation. The project cash flow before tax as follows : Marks : 16

Year	CFBT (in Rs.)	PV Factor @ 12%
1	10,00,000	0.893
2	11,00,000	0.797
3	12,00,000	0.712
4	15,00,000	0.636
5	20,00,000	0.567

Calculate :

(i) Payback period

(ii) Net present value at 12%

(iii) Profitability index at 12%

(iv) Accounting rate of return.

Q. No. 7. What is working capital management ? Explain the factors determining working capital requirements. Marks : 16

Q. No. 8. Define dividend policy ? Explain the factors affecting dividend policy. Marks : 16

Q. No. 9. What do you understand by a capital budgeting decision ? Why is capital budgeting so important to management ? Marks : 16

Q. No. 10. Write short note on **any two** of the following : Marks : 2×8=16

(a) Inventory management

(b) CAPM

(c) Multinational capital budgeting.

Q. No. 11. Solve **any two** of the following problems : Marks : 2×10=20

(a) A company issues 15% debenture of Rs. 10,00,000, the company is in 50% tax bracket. Calculate cost of debt, if debentures are issued at

(i) Par

(ii) 10% discount

(iii) 10% premium.

(b) Calculate IRR of a project costing Rs. 15,00,000 which expects to produce cash benefits after tax of Rs. 2,00,000 over a period of 12 years.

(c) The cost sheet of Ashok company provides the following particulars.

Material 40%

Direct labour 20%

Overheads 20%

The following particulars are further available.

(i) It is proposed to maintain a level of activity of 3,00,000 units.

(ii) Selling price is Rs. 15 per unit.

(iii) Raw materials are expected to remain in stores for an average period of one month.

(iv) Materials will be in process on average half a month.

(v) Finished goods are required to be in stock for an average period of one month.

(vi) Credit allowed to debtors is 2 months.

(vii) 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 requirement.