

BCOM 2001/BBA 2001

B.Com./B.B.A. DEGREE EXAMINATION,
JANUARY 2021.

Non-Semester – Second Year

Commerce/Business Administration

FINANCIAL MANAGEMENT

Time : Three hours

Maximum : 100 marks

PART A — (5 × 8 = 40 marks)

Answer any FIVE out of EIGHT questions.

All questions carry equal marks.

1. “The objective of wealth maximization is superior to profit maximization”- Do you agree?
2. Briefly explain the advantages and limitations of term loan as a source of finance.
3. Rock Fort Steel Ltd whose cost of capital is 10% is considering investing in a project. The following particulars are available.

	Rs.
Initial Investment	90,000
Cash Inflows: Year 1	10,000
2	20,000
3	30,000
4	40,000
5	50,000

Compute

- (a) N.P.V
 - (b) Profitability Index
 - (c) IRR.
4. Asian Motors Ltd offers for public subscription equity shares of Rs. 10 each at a premium of 10%. The company pays an underwriting commission of 5% on the issue price. The equity shareholders expect a dividend of 15%.
- (a) Calculate the cost of equity capital
 - (b) Calculate the cost of equity capital, if the market price of the share is Rs. 20.
5. Calculate the operating, financial and combined leverages from the following information.
- | | |
|---------------|--------|
| Sales | 50,000 |
| Interest | 5,000 |
| Variable cost | 25,000 |
| Fixed cost | 15,000 |
6. The earnings per share of Notsowell Ltd is Rs. 20. The rate of capitalisation is 12% and the rate of return on investment is 9%. Compute the market price per share using Walter's formula if the dividend payout is
- (a) 20%
 - (b) 60%
 - (c) 100%.

Which is the ideal payout?

7. Explain the various types of working capital.
8. Two components A and B are used as follows:
 Normal usage 50 units each per week; Minimum usage 25 units each per week; Maximum usage 75 units each per week; Re-order quantity A: 300 units, B: 500 units, Re-order period A 4 to 6 weeks; B 2 to 4 weeks. Calculate for each component.
 - (a) Re-order level
 - (b) Minimum level
 - (c) Maximum level
 - (d) Average stock level.

PART B — (4 × 15 = 60 marks)

Answer any FOUR out of SIX questions.

All questions carry equal marks.

9. Discuss in detail, the functions of financial management.
10. A choice is to be made between two competing proposals which require an equal investment of Rs. 50,000 and are expected to generate net cash flows as under:

	Project I	Project II
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	Nil	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the company is 10 per cent. The following are the present value factors at 10% per annum.

Year	1	2	3
PV Factor @ 10%	0.909	0.826	0.751
Year	4	5	6
PV Factor @ 10%	0.683	0.621	0.564

Which project proposal should be chosen under the following methods?

- (a) Pay-back Period
- (b) Discounted cash flow method
- (c) Excess present value index

11. A Ltd sells goods at Rs. 10 P.u., its variable costs are Rs. 7 P.u and fixed costs amount to Rs. 1,70,000. It finances all its assets by equity funds. It pays 40% tax on its income.

Z Ltd is identical to A Ltd except in the pattern of financing. Z Ltd finances its assets 50% by equity and 50% by debt, the interest on which amounts to Rs 20,000. Determine the degree of operating, financial and combined leverages when sales are Rs. 7,00,000 for both firms and interpret the results.

12. Anand Ltd is capitalised with Rs. 10 lakhs, divided into 10000 shares of Rs. 100 each. The management desires to raise another Rs. 10 lakh to finance an expansion plan. There are four alternatives.

- (a) All equity shares
- (b) Equity shares for Rs. 5 lakhs and 5% debentures for Rs. 5 lakhs.
- (c) All debentures carrying 6%
- (d) Equity shares of Rs. 5,00,000 and 5% preference shares of Rs. 5,00,000.

You are required to calculate the earnings per share (EPS) under each of the above plans if the expected earnings before interest and taxes is

- (i) Rs. 1,20,000
- (ii) Rs. 2,40,000. Assume a tax rate of 40%.

13. Cost sheet of a company provides the following particulars. Raw materials 40%; Labour 10%; Overheads 30%.

The following details are also available

- (a) Raw materials remain in stores for 6 weeks
- (b) Processing time - 4 weeks
- (c) Finished goods are in stock for 5 weeks

- (d) Period of credit allowed to debtors 10 weeks
 - (e) Lag in payment of wages 2 weeks
 - (f) Period of credit allowed by creditors 4 weeks
 - (g) Selling price Rs. 50 per unit
 - (h) Production in units 13000 per annum
- Prepare an estimate of working capital.

14. BPL Ltd. Wishes to arrange overdraft facilities with its bankers during the period April to June 2005 when it will be manufacturing mostly for stock. Prepare a Cash budget for the above period from the following data, indicating the extent of the bank facilities the company will require at the end of each month.

	Credit sales (Rs)	Purchases (Rs)	Wages (Rs)
February 2005	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

- (a) 50% of credit sales are realised in the month following the sales and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase.
- (b) Cash at bank on 1-4-2005 (estimated) Rs. 25,000.