Sree Chaitanya Mahavidyalaya

M.Com. (Semester-2) Examination-2021
Financial Management
Paper-COMPCOR08T

Full Marks-40 **Time-2 Hours**

Group-A

1. **Answer any five questions** **5x2=10**

(a) Write two main functions of Financial Management?

(b) What do you mean by cost of capital?

(c) Under what condition/conditions dividend policy becomes relevant?

(d) What does perfect capital market assumption of MM-Hypothesis on capital structure imply?

(e) Write the assumptions of Walter's model on dividend policy.

(f) Differentiate between explicit cost of capital and implicit cost of capital?

(g) What do you mean by Trading on Equity?

(h) What is meant by capital rationing?

Group-B

Answer any two questions **2x5 =10**

2 Following data are available in respect of two companies having the same business risk:
Capital employed = Rs. 2,00,000, EBIT = Rs. 30,000, ke = 12.5%

Sources	Levered Company (Rs.)	Unlevered Company(Rs.)
Debt (@10%)	1,00,000	Nil
Equity	1,00,000	2,00,000

An Investor is holding 15% shares in the Levered Company. Calculate changes in annual earnings of the investor if he switches his holding from Levered to Unlevered Company.

3. "The goal of profit maximisation does not provide us with an operationally useful criterion." Comment.

4. From the following information on Britannia Industries Ltd, determine return on equity and financial leverage of the company.

i) Net Sales: Rs. 20 Crores

ii) EBIT as a percentage of net sale: 12%

iii) Capital employed: Equity Capital of Rs. 5 crores, 15% Pref. Share Capital of Rs 2 crore, 10% long term debt of Rs. 3 Crores.

iv) Rate of tax applicable to the company is 30%

5. State the usefulness of payback period method of capital budgeting.

Group-C

Answer any two questions **2x10=20**

6. ABC Limited provides you with following figures:

	Rs.
Profit	2,60,000
Less: Interest on Debentures @ 12%	60,000
Profit before tax	**2,00,000**
Income tax @ 50%	1,00,000
Profit after tax	**1,00,000**
Number of Equity shares (of Rs.10 each)	40,000
EPS (Earning per share)	2.50
Ruling price in market	25
PE Ratio (i.e. Price/EPS)	10

The Company has undistributed reserves of Rs. 6,00,000. The company needs Rs. 2,00,000 for expansion. Thisamount will earn at the same rate as funds already employed. You are informed that a debt equity ratio Debt/ (Debt+ Equity) more than 35% will push the P/E Ratio down to 8 and raise the interest rate on additional amount borrowed to 14%. You are required to ascertain the probable price of the share.

i) If the additional funds are raised as debt; and

ii) If the amount is raised by issuing equity shares.

7. "The Net Income Approach and the Net Operating Income Approach are two extreme capital structure theories." Examine the validity of the statement.

8. From the following information relating to Bata India Ltd, prepare a statement showing the working capital requirement for the level of 5200 units of output per annum.

Elements of Cost	Amount per Unit Rs.
Raw Materials	10
Direct Wages	6
Overheads	4
Total Cost	20
Profit	5
Selling Price	25

Additional information: -

i) Raw materials are in stock, on an average, for one month

ii) Raw materials are in process, on an average, for half a month.

iii) Finished goods are in stock, on an average, for six months.

iv) Credit allowed by suppliers is one month.

v) Credit allowed to customers is two months.

vi) Lag in payment of wages is one and half weeks.

vii) Cash in hand and at Bank is expected to be Rs. 35,000.

You are informed that production is carried on evenly throughout the year and wages and overheads accrue similarly.

9. Alpha Industries Ltd is engaged in manufacturing electronic goods. It has been considering two mutually exclusive projects viz., P_1 and P_2 . The life of project P_1 is 8 years and that of P_2 is 6 Years. Each project requires an initial investment of Rs (in lakh) 120.

Profits before depreciation and tax of these projects are given below:-

At the end of year -	1	2	3	4	5	6	7	8
Profits before depreciation and tax (in lakh) -								
Project – 1	25	35	45	65	65	55	35	15
Project – 2	40	60	80	50	30	20	-	-

Additional information:

i) The company charges depreciation under straight line Method.
ii) Tax rate applicable to the company is 30%.
iii) Cost of capital is 18%.

Which project will you recommend for acceptance?

Send your answer scripts to this e-mail

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