Fifth Semester B.Com. Degree Examinations

OCTOBER/NOVEMBER 2019

(2013 – 14 Scheme)

COMMERCE

Paper CME 410: FINANCIAL MANAGEMENT

Time: 3 hrs.] *[Max. Marks: 80*

SECTION – A

I. ***Answer any THREE questions. FIVE marks each:*** 3 x 5 = 15

1. State the different types of dividend.
2. Name atleast ten sources of Long Term Finance.
3. Initial investment of the project of Mahesh Ltd is ₹ 2,00,000 and annual cash inflows are as follows:

Year	1	2	3	4	5	6
₹	60,000	40,000	40,000	36,000	36,000	24,000

You are required to calculate Pay Back period.

4. Supreeth Ltd. issued 7,000, 11% preference shares of ₹ 100 each redeemable after 6 years at a premium of 4%. The cost of issue is ₹ 6 per share. Calculate the cost of preference shares, if they are issued at a premium of 6%.
5. Rudra deposits ₹ 10,000, ₹ 20,000, ₹ 30,000, ₹ 40,000 and ₹ 50,000 in the beginning of first, second, third, fourth and fifth year respectively at an interest of 7% p.a. for 5 years. Calculate future value.

SECTION – B

II. ***Answer any TWO questions. TEN marks each:*** 2 x10 = 20

6. Define Financial Management. Explain the scope of financial Management.
7. a) Vikas deposits ₹ 1,000 annually in a bank for 5 years at a compound interest rate of 10% p.a. What will be the value of this series of deposits at the end of 5 years? Assume that each deposit occurs at the end of the year.

   b) The shares of Sunil Ltd are selling at ₹ 60 per share. The firm had paid dividend at ₹ 1.50 per share last year. The estimated growth rate of the company is 5% per year. Find out the cost of equity capital.
8. Determine Average Rate of Return from the following information relating to Machine X and Machine Y.

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Particulars	Machine X	Machine Y
Original Cost	₹ 56,125	₹ 56,125
Additional Investment in working capital	₹ 5,000	₹ 6,000
Estimated life	5 Years	5 Years
Income Tax Rate	55%	55%
Estimated Salvage Value	₹ 3,000	₹ 3,000

Annual income after depreciation and taxes.

Year	Machine X (₹)	Machine Y(₹)
1	3,375	11,375
2	5,375	9,375
3	7,375	7,375
4	9,375	5,375
5	11,375	3,375
	36,875	36,875

Depreciation is charged on straight line method.

9. From the information given below estimate working capital requirement of Naveen Trading Company.
   - i) Debtors velocity – 3 months
   - ii) Stock velocity – 8 months
   - iii) Creditors velocity – 3 months
   - iv) Gross Profit/Sales Ratio – 25%
   - v) Minimum Cash balance to be maintained 5% on sales.
   - vi) Gross Profit for the year ₹ 8,00,000
   - vii) Allow 10% for contingencies.

SECTION – C

III. Answer any THREE questions. FIFTEEN marks each: 3 x 15 = 45

10. What do you mean by Dividend? Briefly explain the determinants of Dividend policy.
11. The following data are available in respect of three companies R.S. Ltd G.S Ltd. and S.U. Ltd.

Particulars	R.S Ltd	G.S Ltd	S.U Ltd
Units/Output	20,000	10,000	3,000
Selling Price Per Unit (₹)	20	50	100
Variable Cost per unit (₹)	15	30	40
Fixed Cost (₹)	40,000	70,000	1,00,000
Interest (₹)	10,000	20,000	40,000
Dividend on Preference Shares (₹)	5,000	5,000	10,000
No. of Equity Shares (units)	10,000	12,000	15,000
Tax Rate (Percentage)	40%	50%	60%

Calculate in the case of each company:

i) Earnings before interest and taxes.

Contd.......... 3

ii) Operating Leverage
iii) Financial Leverage
iv) Combined Leverage
v) Earnings per share

12. The Thomas Industries has called for a statement showing the working capital to finance a level of 2,40,000 units. The cost structure and other particulars are as follows.

    i) Cost Structure:
        a) Raw Materials – 40%
        b) Direct Labour – 10%
        c) Overhead (including depreciation of ₹ 5 per unit) – 30%
    ii) Selling Price ₹ 50 per unit.
    iii) Minimum desired cash balance is ₹ 20,000
    iv) Raw Materials are held in stock for 2 months.
    v) Work-in-Progress (Assume 50% completion stage) half a months production.
    vi) Finished goods remain in warehouse for a month.
    vii) Suppliers extend a month's credit and debtors are provided 2 months credit. Cash sales are 25% of total sales.
    viii) There is a time lag in payment of wages a month and half a month in case of overhead.
    ix) Advertisement expenses (paid half yearly in advance) ₹ 30,000.
    x) Allow 10% for contingencies.

    Prepare the statement of working capital requirements.

13. You are required to determine the weighted Average Cost of capital of Manavi Ltd. using book value weights and market value weights. The following information available. The present capital structure of the Co. is:

	₹
Debenture (₹ 100 per debenture)	8,00,000
Preference Shares (₹ 100 per share)	2,00,000
Equity Shares (₹ 10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are: debentures at ₹ 110, preference shares at ₹ 120 and equity shares at ₹ 22. Anticipated external financing opportunities are:

i) ₹ 100 per debenture redeemable at par: 20 years maturity, 8% coupon rate, 4% floatation costs, sale price ₹ 100.
ii) ₹ 100 preference share redeemable at par: 15 years maturity, 10% dividend rate, 5% floatation costs, sale price ₹ 100.
iii) Equity shares: ₹ 2 per share flotation costs, sale price ₹ 22.

In addition, the dividend expected on the equity share at the end of the year ₹ 2 per share, the anticipated growth rate in dividends is 5% and the company has the practice of paying all its earning in the form of dividends. The corporate tax is 50%.

Contd.......... 4

14. Calculate Net Present Value and Profitability Index from the following cash inflow and cash outflow of Projects G and S.

Year	Project G		Project S	
	Cash outflow (₹)	Cash inflow (₹)	Cash outflow (₹)	Cash inflow (₹)
0	12,00,000	–	5,00,000	–
1	1,00,000	–	–	20,000
2	–	3,90,000	50,000	60,000
3	50,000	4,50,000	–	1,00,000
4	–	4,70,000	–	1,20,000
5	–	3,10,000	–	1,50,000
6	–	3,70,000	–	1,40,000
7	–	4,00,000	–	1,00,00

The scrap value for the project 'G' is ₹ 1,10,000.

The discount factors at 10% rate of return p.a. are:

Year	1	2	3	4	5	6	7
Discount Factor	0.909	0.826	0.751	0.683	0.621	0.564	0.513

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