(6 pages)

APRIL 2019 **65152/KDA1B**

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer any TEN questions.

1. Define Financial Management.
2. What do you mean by Equity Shares?
3. State the criticism of MM approach.
4. What is Capital Gearing?
5. Define – Cost of Equity Shares.
6. What do you mean by Over Capitalization?
7. What is Cost of Capital?
8. Define – Payback period.
9. What is Working Capital?
10. Define — Current Assets.
11. What is Financial Plan?
12. Write a short note on "Secured Debentures".

I MCom - Financial Management.

PART B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. Discuss about the importance of Financial Management.
14. Bring out the essential features of sound capital structure.
15. How will you determine the Cost of capital of a firm?
16. The following particulars relate to Ambuja Ltd.

Equity share capital

1,00,000 shares of Rs. 10	Rs. 10,00,000
Profit after tax	Rs. 9,00,000

Current market price of equity share Rs. 75

(a) Calculate the Cost of Equity

(b) What is the cost retained earnings if the average personal tax rate of shareholder's is 30% and the brokerage cost for making new investment is 2%.

17. What are the objectives of investment management?

18. Peerless Ltd. is engaged in customer retailing. You are required to forecast their working capital requirements from the following information. (Add 20% to allow for contingencies)

Particulars	Rs.
Projected Annual Sales	6,50,000
% of N.P to Cost of Sales	25%
Average Credit allowed to debtors	10 Weeks
Average Credit allowed by Creditors	4 Weeks
Average Stock carrying (in terms of Sale Requirement)	8 Weeks

19. Monthly cash requirement – Rs. 90,000

Fixed Cost per transactions – Rs. 15

Interest Rate on marketable Securities – 6% p.a

You are required to calculate optimum cash Balance.

PART C — (4 × 10 = 40 marks)

Answer any FOUR questions.

20. Explain the methods of sources of raising finance.
21. NCP Company Ltd. has an all equity capital structure consisting of 20,000 equity shares of Rs. 100 each. The management plans to raise Rs. 30 lakhs to finance a programme of expansion. Three alternative methods of financing are under consideration.

(a) Issue of 30,000 new shares of Rs. 100 each

(b) Issue of 30,000 8% debentures of Rs. 100 each

(c) Issue of 30,000, 8% preference shares of Rs. 100 each.

The company's expected earning before interest and taxes (EBIT) are Rs. 10 lakhs. Determine the earnings per share in each alternative assuming a corporate tax rate of 50 per cent. Which alternative is best and why?

22. From the following capital structure of a company calculate the overall cost of capital using (a) Book value weights and (b) Market value weights.

Sources	Book value (Rs.)	Market Value (Rs.)
Equity share Capital (Rs.10 Shares)	45,000	90,000
Retained Earnings	15,000	–
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after-tax cost of different sources of finance is as follows : Equity share Capital: 14%, Retained Earnings: 13%, Preference Share Capital 10%, Debentures: 5%.

23. What is Investment Decision? State the factors affecting investment Decision.

24. Sathyam Industries Ltd., gives the following abridge profit and Loss account.

	Rs.		Rs.
To Materials used	1,20,000	By Sales	2,50,000
To Wages	20,000		
To Manufacturing Expenses (Including Depreciation Rs. 10,000)	30,000		
To Office Expenses	14,000		
To Selling Expenses	12,000		
To Net Profit	54,000		
	2,50,000		2,50,000

It is the Company's Policy to maintain the following Stocks :

(a) Finished goods 1½ months Sales.

(b) Raw material 1 month's consumption.

(c) Work-in-process is equal to 1 month's production in terms of materials and ½ month's wages and manufacturing expenses.

(d) Credit allowed to customers 3 months and credit allowed by Suppliers 2 months.

(e) All expense and wages one month in arrear but selling expense are paid 2 months in advance.

(f) A Safety margin of 10% on total current assets is desirable. Estimate the working capital requirements for the company.

25. List out the problems of Over capitalization.