(6 pages)

APRIL 2021 **65152/KDA1B**

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer any TEN questions.

1. What do you mean by financial management?

2. What is bonus shares?

3. Point out the assumptions of MM hypothesis.

4. What is EPS Analysis?

5. Define - Cost of Capital.

6. Write a short note on “Payback Period”.

7. What is dividend policy?

8. What do you mean by permanent working capital?

9. Define - receivable management.

10. What is working capital cycle?

11. State the role of financial manager.

12. What is Convertible debenture?

PART B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. Bring out the benefits of financial management.

14. What are the problems of under capitalization?

15. Explain the importance of cost of capital in decision making.

16. 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%.

17. Discuss the determinants of dividend policy.

18. Calculate the minimum stock level, maximum stock level and re-order level from the following information. Minimum consumption 100 kgs per day; Maximum Consumption 150 kgs per day; Normal consumption 120 kgs per day; Re-order period 10-15 days; Re-order quantity 1500 kgs; Normal re-order period 12 days; Time for emergency supplies 3 days.

19. Monthly cash Requirement Rs. 1,10,000

    Fixed Cost per transactions Rs.20

    Interest rate on marketable securities–8.5% p.a.

    You are required to calculate optimum cash Balance.

PART C — (4 × 10 = 40 marks)

Answer any FOUR questions.

20. Explain the problems of financial forecasting.

21. Ramu Ltd. is expecting an annual EBIT of Rs 1,00,000. The Company has Rs.4,00,000 in 10% debentures. The equity capitalization rate is 12.5%. The company proposes to issues additional equity shares of Rs.1,00,000 and use the proceeds for redemption of debenture of Rs.1,00,000. Calculate the value of the firm (V) and the overall cost of capital (Ko).

22. The following items have been taken from the balance sheet of Sakthi Sugars Ltd as on 31st March 2008.

	Rs.
2,00,000 Shares of Rs.10 each (Paid-up)	20,00,000
Reserves and Surplus	30,00,000
Loan:12% Non-Convertible Debentures	10,00,000
10% Institutional Loans	40,00,000

Other relevant Information:

Year ended 31st March	Dividend per share (Rs)	EPS (Rs)	Average Market price (Rs)
2005	2.00	4.00	24.00
2006	2.50	5.00	30.00
2007	3.00	6.00	40.00

Calculate the weighted average cost of Capital. Use book values as weights and Earnings/Price Ratio as the basis for cost of equity. Assume a tax rate of 50%.

23. What is meant by investment decision. Point out the advantages of investment decision.

24. Anand wishes to commence a new trading business and gives the following information:

    (a) Total estimated sales p.a Rs.6,00,000

    (b) His fixed expenses are estimated at Rs. 1,000 per month and variable expenses equal to 5% of his turnover.

    (c) He expects to fix a sales price for each product which will be 25% in excess of his cost of purchase.

    (d) He expects to turnover his stock 4 times in a year.

(e) The sales and purchases eventually spread throught the year. All the sales will be for cash but expects one month's credit for purchases.

Calculate:

(i) His estimated profit for the year

(ii) His average working capital requirements.

25. List out and explain about the determinates of capital structure.