

SHRIMATHI DEVKUNVAR NANALAL BHATT VAISHNAV COLLEGE FOR WOMEN  
(AUTONOMOUS)

(Affiliated to the University of Madras and Re-accredited with 'A+' Grade by NAAC)  
Chromepet, Chennai - 600 044.

B.Com.ISM - END SEMESTER EXAMINATIONS - APRIL 2025

SEMESTER - III

**23UBICT3005 - Financial Management**

Total Duration : 2 Hrs.30 Mins.

Total Marks : 60

**Section B**

Answer any **SIX** questions ( $6 \times 5 = 30$  Marks)

- Describe the role of financial manager in financial management.
- J Ltd. is expecting an annual EBIT of Rs.2,00,000. The company has Rs.2,00,000 in 10% Debentures. The equity capitalization rate ( $k_e$ ) is 12%. You are required to compute the total value of the firm and overall cost of capital.
- From the following capital structure of a company, compute the overall cost of capital using (a) Book value weights and (b) Market value weights.

Source	Book value	Market value	After tax cost
Equity share capital (Rs.10 share)	45,000	90,000	14%
Retained earnings	15,000	-	13%
Preference share capital	10,000	10,000	10%
Debentures	30,000	30,000	5%

- An investment of Rs.10,000 (having scrap value of Rs.500) yields the following returns:

Years	1	2	3	4	5
Yields	4,000	4,000	3,000	3,000	2,000
PV @ 10%	0.909	0.826	0.751	0.683	0.621

The cost of capital is 10%. Suggest if the investment is desirable by applying Net Present Value method.

- A company is considering investment of Rs.10,00,000 in a project. The following are the income forecasts, after depreciation and tax:

Year	1	2	3	4	5
	Loss	Profit	Profit	Profit	Profit
Cash inflows	1,00,000	3,00,000	4,00,000	2,00,000	2,00,000

Compute the accounting rate of return

- On original investment method
- On average investment method

**Contd...**

6. Explain the Modigliani-Miller hypothesis of dividend irrelevance. Does this hypothesis suffer from deficiencies?
7. Ascertain the market value per share using Gordon's model. Payout: 30%, Earning per share: Rs.45, Return on investment = 18%, Cost of capital = 18%.
8. Explain the operating cycle of working capital.

### Section C

Answer any **THREE** questions ( $3 \times 10 = 30$  Marks)

9. A company needs Rs.6,00,000 for construction of a new plant. The following three financial plans are feasible.
  - a) The company may issue 60,000 equity shares of Rs.10 each.
  - b) The company may issue 30,000 equity shares of Rs.10 each and 3,000 debentures of Rs.100 each bearing 8% coupon rate of interest.
  - c) The company may issue 30,000 equity shares of Rs.10 each and 3,000 preference shares of Rs.100 each bearing 8% rate of dividend.

The profit before interest and taxes is expected to be Rs.1,50,000. Corporate tax rate is 50%. Calculate the earnings per share under the three plans. Which plan would you recommend and why?
10. Asian Ltd. issued 15,000, 12% Preference Shares of Rs.100, redeemable at 10% premium after 20 years. The floatation costs were 5%. Compute the cost of preference capital if shares are issued at (a) at par, (b) at premium of 5% and (c) at a discount of 10%.
11. A Company has to choose one of the following two mutually exclusive projects. Investment required for each project is Rs.1,50,000. Both the projects have to be depreciated on straight line basis. The tax rate is 50%.

Year	Profit before depreciation	
	Project X (Rs.)	Project Y (Rs.)
1	42,000	42,000
2	48,000	45,000
3	70,000	40,000
4	70,000	50,000
5	20,000	1,00,000

Calculate pay-back period and conclude which project is feasible to select.

12. Victory Ltd. earns Rs.5 per share. The capitalisation rate is 10% and the return on investment is 12%. Under Walter's model, determine a) the optimum pay-out, b) the market price of the share at this pay-out, c) the market price of the share if the pay-out is 20%, d) the market price of the share if the pay-out is 40%.

**Contd...**

13. From the following estimates, compute the average amount of working capital required:

- a. Average amount locked up in stock:
  - i. Stock of finished goods and work-in-progress Rs.10,000 p.a.
  - ii. Stock of stores, materials etc Rs.8,000 p.a.
- b. Average credit given:
  - i. Local sales 2 weeks credit Rs.1,04,000 p.a.
  - ii. Outside sales 6 weeks credit Rs.3,12,000 p.a.
- c. Time available for payments:
  - i. For purchases 4 weeks Rs.78,000 p.a.
  - ii. For wages 2 weeks Rs.2,60,000 p.a.

\*\*\*\*\*