SN – 668

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III Semester B.Com. Examination, November/December 2013
(Semester Scheme)
(New Syllabus) (2013-14 & Onwards)
COMMERCE
3.4 : Financial Management

Time : 3 Hours Max. Marks : 100

***Instruction**: Answer should be **written** completely **either** in **English** or **Kannada**.*

SECTION – A

Answer **any 10** sub-questions, from the following, **each** sub-question carries **2** marks. **(10×2=20)**

1. a) Enumerate the Objectives of Financial Management.

   b) Name the two approaches of Financial Management.

   c) What is an Annuity ?

   d) Name the two models used for valuing Equity Shares.

   e) Given FL = 2, Fixed Interest Charges = Rs. 1,00,000 find out EBIT.

   f) A Project cost Rs. 2,50,000 and yields an annual profit of Rs. 40,000 aftergdepreciation at 12% pa, but before tax at 50%. Calculate the PBP.

   g) A Chmpany is expected to pay a dividend of Rs. 2 per equity share. The dividends are expected to grow perpetually at a growth rate of 10%. Find out the share price today, if the market capitalizes dividend at 30%.

   h) What are the sources of Working Capital ?

   i) List any two repercussions when a firm has excess working capital.

   j) Initial investment of Rs. 20,00,000, Scrap Value Rs. 4,00,000, working life is 5 years, additional working capital Rs. 2,00,000. Calculate Average Investment.

   k) What is meant by 'Stock Dividend' ?

   l) What do you mean by rights issue ?

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SECTION – B

Answer **any 4** questions of the following. **Each** question carries **8** marks. **(4×8=32)**

2. A Company proposes to issue 10 year Debentures of Rs. 10,000 (Rs. 100 per value). The Company would return Rs. 1,000 at the end of every year and will pay interest annually at 10% on the outstanding amount. Determine the present value of the debenture issue if capitalization rate is 20%. The Present value factors at 20% are given below :

Year	1	2	3	4	5	6	7	8	9	10
PVF@20%	0.833	0.694	0.579	0.482	0.402	0.335	0.279	0.233	0.194	0.162

3. The financial data of Madhumita Industries for the year ended 31st Dec. 2013 is as follows;

   Variable Expenses as a percentage of Sales = 75%

   Interest Expenses = Rs. 300

   DOL = 6-1

   DFL = 4-1

   Income Tax Rate – 50%

   Prepare an Income Statement.

4. Briefly explain the various forms of dividend.

5. What are the factors which determine the working capital needs of a Company ?

6. Calculate OL and FL from the following.

   Sales – Rs. 1,00,000 at Rs. 5 per unit.

   Variable Cost – Re. 1 per unit

   Fixed Cost – Rs. 1,00,000

   Interest Expenditure – Rs. 20,000.

SECTION – C

Answer **any 3** of the following questions. **Each** question carries **16** marks. **(3×16=48)**

7. What are the steps in Financial Planning ? Explain clearly the basic consideration in formulating a Financial Plan.

8. A Company is considering purchasing a Machine. Two alternative Machines are available Machine-X and Y and each costing Rs. 50,000. Earnings after taxation are expected to be as follows.

Year	**Estimated Net Cash flows**	
	Machine-X (Rs.)	**Machine-Y (Rs.)**
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to;

a) PBP b) ROI c) NPV @10%. Assume SLM of depreciation.

The discount factor is as under;

Year	1	2	3	4	5
DF @10%	0.909	0.826	0.751	0.683	0.621

9. Firms X and Y identical are except that the firm X is not levered while firm Y is levered.

The following data relate them :

Particulars	**Firm-X (Rs.)**	**Firm-Y (Rs.)**
Assets	5,00,000	5,00,000
Debt Capital	0	2,50,000 (9% Interest)
Equity Share Capital	5,00,000	2,50,000
Number of Shares	50,000	25,000
Rate of return on assets	20%	20%

Calculate EPS for both the firms, assuming tax rate of 50%. Will it be advantageous to firm Y to raise the level of debt to 75% ?

10. The Capital Structure of the Progressive Corporation Ltd. Consist of an Equit Share capital of Rs. 10,00,000 (shares of Rs. 10 par value) and Rs. 10,00,000 c 20% Debentures. Sales increased by 25% from 2,00,000 units to 2,50,000, th selling price is Rs. 10 per unit, variable cost amount to Rs. 6 per unit and fixe expenses amount to Rs. 2,50,000. Income tax rate is assumed to be 50%.

You are required to calculate the following :

i) The percentage increase in EPS

ii) The DFL at 200000 units and 250000 units.

iii) The DOL at 200000 units and 250000 units.