

CO 6608
Financial Management

PART – A

Answer ALL the questions:

(10 x 2 = 20marks)

1. Define Financial Management.
2. What is Wealth Maximization?
3. What is Net Operating Income Approach?
4. Define Explicit Cost.
5. What is Capital Rationing?
6. A firm has sales of Rs.75,00,000, variable cost of Rs.42,00,000 and fixed cost of Rs.6,00,00. It has a debt of Rs.45,00,000 at 9% and equity of Rs.55,00,000. Calculate Operating Leverage of the firm.
7. The following particulars relate to Ambuja Ltd.

	Rs.
Equity share capital 1,00,000 shares of Rs.10	10,00,000
Profit after tax	9,00,000
Current market price of equity share	75

Calculate cost of equity.

8. A project cost Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its Pay-back Period.
9. Monthly cash requirements - Rs.90,000
Fixed cost per transaction Rs.15
Interest rate on marketable securities 6% p.a.
You are required to calculate optimum cash balance.
10. Find out the Economic Order Quantity from the following particulars:
Annual Usage : Rs.1,20,000
Cost of placing and receiving one order: Rs.60
Annual carrying cost = 10% of inventory value.

PART – B

Answer any FOUR questions:

(4 x 10 = 40 marks)

11. What are the functions of Financial Management?
12. Explain the assumptions and implications of Walter's Dividend Model.
13. What are the factors influencing the need for working capital of a firm?
14. A firm has sales of Rs.15,00,000, Variable cost of Rs.9,00,000, fixed cost of Rs.3,00,000 and debt of Rs.8,00,000 at 8%.
(i) Calculate its Operating, Financial and Combined Leverages.

- (ii) If the firm decides to double its EBIT, how much of a rise in sales would be needed on a percentage basis.

15. Dubin Ltd, has equity share capital of Rs.12,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.6,00,000 for expansion – cum – modernisation scheme.

The company plans the following financial alternatives:

Plan A - By issuing equity shares only

Plan B – Rs.2,00,000 by issuing equity shares and

Rs.4,00,000 through debentures @ 10% p.a.

Plan C – Rs.2,00,000 by issuing equity shares and Rs.4,00,000 by issuing 9% Preference shares.

Plan D – By raising term loan only at 9% p.a.

You are required to suggest the best alternative, giving your comment assuming that the estimated EBIT after expansion is Rs.2,25,000 and corporate rate of tax is 40%.

16. The shares of a chemical company are quoted at Rs.42 per share. The firm had paid a dividend of Rs.4 per share last year. The expected growth in dividend is 5% per annum.

- (i) Determine the cost of equity capital of the company
(ii) Determine the market price of the equity share, if the anticipated growth rate of the firm,
(a) Rises to 8% and (b) Falls to 3%.

17. A Ltd company is considering investing in a project requiring a Capital outlay of Rs.2,00,000.

Forecast of annual income after depreciation but before tax is as follows:

Year	PBT Rs.	PVIF @ 10%
1	1,00,000	.909
2	1,00,000	.826
3	80,000	.751
4	80,000	.683
5	40,000	.621

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

Calculate (a) Pay – back Period (PBP)

(b) Net Present Value (NPV)

PART – C

Answer any TWO questions:

(2 x 20 = 40 marks)

18. Critically analyse the role of finance Manager in a large scale industrial establishment.

19. Honda Ltd has a share capital of Rs 1,00,000 divided into shares of Rs. 10 each.

The Management is considering the following alternatives for financing a Capital expenditure of Rs. 50,000.

1. Issue of 10% debentures.
2. Issue of 5,000, 12% Preference shares of Rs. 10 each.
3. Issue of 5,000, Equity shares of Rs. 10 each.

The earnings before interest and taxes (EBIT) are Rs. 30,000 p.a.

Calculate the effect of each of the alternatives on the earning per share assuming

- a) EBIT continues to be the same even after the capital expenditure.
- b) EBIT increases by Rs 15,000.
- c) Tax liability of 40%.

20. X Ltd is considering the purchase of a new machine to replace a machine which has been in operation in the factory for the last 5 years. Ignoring interest but considering tax at 50% of net earnings, suggest which of the two alternatives should be preferred. The following are the details:

Particulars	Old Machine Rs.	New Machine Rs.
Purchase Price	40,000	60,000
Estimated life of Machine	10 years	10 years
Machine running hours p.a	2,000	2,000
Units per hour	24	36
Wages per running hour	3	5.25
Power per annum	2,000	4,500
Consumable stores p.a	6,000	7,500
All other Charges p.a	8,000	9,000
Material Cost Per Unit	0.50	0.50
Selling Price Per Unit	1.25	1.25

You may assume that the above information regarding sales and Cost of Sales will hold good throughout the economic life of each of the machines. Depreciation has to be charged according to straight line Method. Calculate Accounting Rate of Return.

21. X Co. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of Working Capital which will be required in the first year's working. You are given the following estimate and are instructed to add 10% to your computed figure to allow for contingencies.

	Particulars	Rs,
(i)	Average amount locked up in Stocks:	
	Stock of finished goods	5,000
	Stock of stores and materials	8,000
(ii)	Average Credit given:	
	Inland Sales – 6 Weeks	3,12,000
	Export Sales – 1 ½ Weeks	78,000
(iii)	Lag in payment of wages and other out goings:	
	Wages – 1 ½ Weeks	2,60,000
	Stores, materials etc – 1 ½ Months	48,000
	Rent, royalties, etc – 6 Months	10,000
	Clerical, Staff Salary – ½ Month	62,400
	Manager Salary – ½ Month	4,800
	Miscellaneous expanses – 1 ½ Months	48,000
(iv)	Payment in advance:	
	Sundry expenses (paid quarterly in advance)	8,000
(v)	Undrawn profits on the average throughout the year	11,000

Set up your calculations for the average amount of working capital required.