IV Semester 5 Year B.B.A.,LL.B./B.Com.LL.B. Examination, March/April 2023 (Dec. 2022)
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 80

Instructions :
1. **Answer all five Units.**
2. **One essay type question and short note/problems is compulsory from each Unit.**
3. **Figures to the right indicate marks.**
4. **Answer should be written in English completely.**
5. **Use simple calculator only.**

UNIT – I

Q. No. 1. a) Hari Ltd. has the following capital : Marks : 10

Equity share capital :	
(20000 shares @ Rs. 20/share)	Rs. 4,00,000
6% Preference share capital	Rs. 1,00,000
8% Debenture	Rs. 3,00,000

The market price of equity share is Rs. 20 per share, the company is expected to pay dividend of Rs. 2 per share which will grow at 7%.

Calculate weighted average cost of capital assuming that the company is under 50% tax bracket.

Also, calculate the new weighted average cost of capital if the company raises an additional Rs. 2,00,000 debt by issuing 10% debentures, this would result in increase in expected dividend to Rs. 3 per share and leave the growth rate unchanged, but the market price of the share will come down to Rs. 15/share.

OR

Q. No. 1. a) Elaborately explain capital asset pricing model. Marks : 10

Q. No. 1. b) Write a short note on significance of cost of capital. Marks : 6

OR

Q. No. 1. b) Write a short note on cost of equity shares and retained earnings. Marks : 6

UNIT – II

Q. No. 2. a) A Ltd. belongs to a risk class for which the appropriate discount rate is 10%. It currently has 25,000 outstanding shares selling at Rs. 100 each. The firm is contemplating a dividend payment of Rs. 5 per share, at the end of current financial year. It expects to have a net income of Rs. 2,50,000 and a proposal for making new investments of Rs. 5,00,000. Show that under the MM hypothesis the payment of dividend does not affect the value of the firm. Marks : 10

OR

Q. No. 2. a) Explain various factors which influence the capital structure of a company. Marks : 10

Q. No. 2. b) Explain the traditional approach of capital structure. Marks : 6

OR

Q. No. 2. b) Write a short note on factors affecting dividend policy. Marks : 6

UNIT – III

Q. No. 3. a) Explain the factors influencing the working capital requirements. Marks : 10

OR

Q. No. 3. a) Gani Ltd. sells goods on a gross profit of 25%. Depreciation is taken into account as a part of cost of production. The following are the annual figures given to you. Marks : 10

Particulars	**Rs.**
Sales (2 months credit)	18,00,000
Material consumed (1 month credit)	4,50,000
Wages (1 month lag in payment)	3,60,000
Cash manufacturing expenses (1 month lag in payment)	4,80,000
Administrative expenses (1 month lag in payment)	1,20,000
Sales promotion expenses (paid currently in advance)	60,000
Income tax payable in 4 instalments of which one lies in next year	1,50,000

The company keeps one month's stock of each raw material and finished goods. It also keeps Rs. 1,00,000 in cash. You are required to estimate the working capital requirements of the company assuming 15% safety margin.

Q. No. 3. b) Explain in brief techniques of inventory control. Marks : 6

OR

Q. No. 3. b) Write a short note on need of working capital management. Marks : 6

UNIT – IV

Q. No. 4. a) Explain various factors peculiar to Multi National Corporations. Marks : 10

OR

Q. No. 4. a) India Pharma Ltd. an India based MNC is evaluating an overseas investment proposal. India Pharma exports of pharmaceuticals products have increased to such an extent that it is considering a project to build a plant in the US. The project will entail an initial outlay of $100 million and is expected to generate the following cash flows over its four year life. Marks : 10

Year	Flow of cash (in million)
1	$ 30
2	$ 40
3	$ 50
4	$ 60

The current spot exchange rate is Rs. 70 per US dollar, the risk free rate in India is 8% and the risk free rate in US is 3%. There rates observed in the financial markets.

Indian Pharma's required rupee return on the project is 15%. Should Indian Pharma undertake this project ? How is the undertake NPV of such a project calculated ?

Q. No. 4. b) Write a short note on multinational capital budgeting. Marks : 6

OR

Q. No. 4. b) Write a short note on factors influencing capital structure of an MNC. Marks : 6

UNIT – V

Q. No. 5. a) Explain various reasons for mergers. Marks : 10

OR

Q. No. 5. a) XYZ Ltd. wants to acquire ABC Ltd. Marks : 10

Particulars	Firm XYZ	Firm ABC
Present earnings (Rs. in million)	20	4
Shares (in million)	10	1
Price earning ratio	18	10

Case I : If the two firms were to merge and the exchange ratio were one share of firm XYZ for each shares of firm ABC. What would be the initial impact on EPS of the two firms.

Case II : If the firm XYZ wants to takeover the firm ABC by offering a premium of 20% over the market price of share. What is the ratio of exchange of stock and how many new shares will be issued ?

Q. No. 5. b) Write a short note on types of mergers. Marks : 6

OR

Q. No. 5. b) Write a short notes on benefits of mergers. Marks : 6

Fourth Semester 5 Year B.B.A. LL.B./B.Com. LL.B.
Examination, October/November 2022 (June 2022)
FINANCIAL MANAGEMENT

Duration : 3 Hours

Max. Marks : 80

Instructions : **1. Answer all five Units.**

2. One essay type question and short note/problems is compulsory from each Unit.

3. Figures to the right indicate marks.

4. Answer should be written in English only.

UNIT – I

Q. No. 1. (a) The capital structure of Finetech Ltd. is as under : Marks : 10

	₹
9% Debentures of ₹ 100 each	5,50,000
11% Preference shares of ₹ 100 each	4,50,000
Equity shares of ₹ 10 per share	10,00,000
	20,00,000

Additional Information :

(i) ₹ 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is ₹ 105.

(ii) ₹ 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is ₹ 106.

(iii) Equity share has market price per share of ₹ 20. The next year's expected dividend is ₹ 2 per share with annual growth of 5%. The firm has a practice of paying the earnings in the form of dividends.

(iv) Corporate income tax rate is 35% .

You are required to calculate :

(a) Cost of each source of capital.

(b) Weighted average cost of capital using market value weights.

OR

Q. No. 1. (a) A firm has the following capital structure and after tax costs for the different sources of funds. Marks : 10

Source of funds	Book value (₹)	Market value (₹)	After tax Cost (%)
Debt	15,00,000	15,00,000	5
Preference shares	12,00,000	12,00,000	10
Equity shares	18,00,000	54,00,000	12
Retained earnings	15,00,000	–	11
Total	**60,00,000**	**81,00,000**	

Compute the weighted average cost of capital :

(i) On the basis of book value

(ii) On the basis of market value.

Q. No. 1. (b) Write short notes on : Marks : 6

Significance of cost of capital.

OR

Q. No. 1. (b) Problems in determination of cost of capital. Marks : 6

UNIT – II

Q. No. 2. (a) A company's capital structure consists of the following : Marks : 10

	₹
Equity share of ₹ 100 each	20,00,000
Retained earnings	10,00,000
9% Preference shares	12,00,000
7% Debentures	8,00,000
Total	**50,00,000**

The company earns 12% on its capital. The income-tax rate is 50%. The company requires a sum of ₹ 25,00,000 to finance its expansion programme for which the following alternatives are available to it.

(i) Issue of 20,000 equity shares at a premium of ₹ 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why ?

OR

Q. No. 2. (a) What are the factors that influence dividend policy ? Marks : 10

Q. No. 2. (b) Write a short note on : Marks : 6

MM Approach under capital structure theory.

OR

Q. No. 2. (b) Explain the types of dividend policy. Marks : 6

UNIT – III

Q. No. 3. (a) You are given the following estimates and are instructed to add 10% margin for contingencies. Marks : 10

	₹
(i) Amount blocked up for stocks :	
Stocks of finished product	5,000
Stocks of stores, materials etc.	8,000
(ii) Average credit given :	
Inland sales – 6 weeks credit	3,12,000
Export sales – 1½ weeks credit	78,000
(iii) Lag in payment of wages and other outgoings :	
Wages – 1½ weeks	2,60,000
Stocks of materials, etc. – 1½ months	48,000
Rent, Royalties etc. – 6 months	10,000
Clerical staff – ½ month	62,400
Manager – ½ month	4,800
Miscellaneous expenses – 1½ month	48,000
(iv) Payment in advance :	
Sundry expenses (paid quarterly in advance)	8,000
(v) Undrawn profit on the average throughout the year	11,000

Compute the amount of working capital required.

OR

Q. No. 3. (a) Prepare an estimate of working capital requirement from the following information. Marks : 10

(i) Projected Annual sales 120000 units.

(ii) Selling price ₹10 per unit.

(iii) Percentage net profit on sales 30%.

(iv) Average credit period allowed to customers – 10 weeks.

(v) Average credit period allowed to suppliers – 5 weeks.

(vi) Average stock holding in terms of sales requirement – 5 weeks.

(vii) Allow 15% for contingencies.

Q. No. 3. (b) Write a short note on : Marks : 6

Types of working capital.

OR

Q. No. 3. (b) Dangers of inadequate working capital. Marks : 6

UNIT – IV

Q. No. 4. (a) A company is considering to purchase a machine.

Two machines are available X and Y costing ₹ 50,000. Marks : 10

Earnings after taxation are expected to be as follows :

Estimated cash flows :

Years	**Machine X** (₹)	**Machine Y** (₹)
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 :

(i) Payback period method.

(ii) Net present value method (cost of capital 10%). Assume straight line method of depreciation.

The discount factor is as under :

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

OR

Q. No. 4 (a) India Pharma Ltd., an Indian based multinational company is evaluating an overseas investment proposal. India Pharma's exports of pharmaceuticals products have increased to such an extent that it is considering a project to build a plant in the US. The project will entail an initial outlay of $ 100 million and is expected to generate the following cash flows over its four year life. Marks : 10

Year	Cash flow (in million)
1	$ 30
2	$ 40
3	$ 50
4	$ 60

The current spot exchange rate is ₹ 70 per US dollar, the risk-free rate in India is 8% and the risk-free rate in US is 3% – these are rates observed in financial markets.

India Pharma's required rupee return on a project of this kind is 15%.

Calculate NPV of the project.

Q. No. 4 (b) Write short notes on : Marks : 6

Financial Management of Multinational Corporations.

OR

Q. No. 4 (b) Management Accounting by Multinational Firms. Marks : 6

UNIT – V

Q. No. 5. (a) Company X is considering the purchase of Company Y. The following are the financial data of the two companies : Marks : 10

	Company X	Company Y
Number of shares	4,00,000	1,00,000
Earnings Per Share (EPS)	₹ 6	₹ 4.50
Market value per share	₹ 30	₹ 20

Assuming that the management of the two companies have agreed to exchange shares in proportion to :

(i) The relative earnings per share of the two firms.

(ii) 4 shares of Company X for every 5 shares held in Company Y.

Illustrate and comment on the impact of merger on the EPS.

OR

Q. No. 5. (a) East Co. Ltd. is studying the possible acquisition of Fost Co. Ltd. by way of merger. Marks : 10

The following data are available in respect of the companies :

	East Co. Ltd.	Fost Co. Ltd.
Earnings after tax (₹)	2,00,000	60,000
No. of equity shares	40,000	10,000
Market value per share (₹)	15	12

If the merger goes through by exchange of equity share and the exchange ratio is based on the current market price, what is the new earnings per share of East Co. Ltd. ?

Q. No. 5 (b) State the reasons for merger. Marks : 6

OR

Q. No. 5 (b) Write a short note on "Types of Mergers. Marks : 6

6017/7017

IV Semester 5 Year B.B.A.LL.B./B.Com. LL.B. Examination,
October/November 2021
FINANCIAL MANAGEMENT

Duration : 3 Hours

Max. Marks : 80

Instructions : 1. **Answer any five questions from group (a). Each question carries 10 marks.**
2. **Answer any five questions from group (b). Each question carries 6 marks.**
3. **Answers should be written only in English.**

Q. No. 1. (a) From the following capital structure of a company, calculate the overall cost of capital using

Marks : 10

(a) Book value weights.

(b) Market value weights.

Source	**Book value**	**Market value**
Equity share capital (₹ 10 per share)	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 are as follows : Share capital : 14%, Retained earnings : 13%, Preference share capital : 10%, Debentures : 5%.

Q. No. 1. (b) Explain the significance of cost of capital. Marks : 6

Q. No. 2. (a) Calculate the weighted average cost of capital. Both book value and market value weights after tax for the following. The tax rate is 50%.

Marks : 10

Sources of Capital	**Book Value**	**Market Value**	**Cost of each Source Before Tax**
Equity Capital	2,50,000	5,00,000	24.44%
Pref. Capital	1,00,000	1,50,000	27.29%
Debt. Capital	5,00,000	6,50,000	7.99%
Retained Earnings	1,50,000	–	18.33%

Q. No. 2. (b) Explain the role of a Finance Manager. Marks : 6

P.T.O.

Q. No. 3. (a) Define capital structure. Explain the factors determining capital structure. Marks : 10

Q. No. 3. (b) Write a short note on : Marks : 6

(1) Traditional approach.

(2) Net income approach.

(3) Net operating income approach.

Q. No. 4. (a) PQR Ltd. has 2,00,000 shares outstanding and is planned to declare a dividend to ₹ 5/- at the end of current financial year. The present market price is ₹ 100. The cost of equity capital K_e may be taken at 10%. Using MM model and assuming no taxes, ascertain the price of the company's share as it is likely to prevail at the end of the year. Marks : 10

(i) When dividend is declared and

(ii) When no dividend is declared ?

The company expects to have a net income of ₹ 20,00,000 during the year I and is planning to make an investment of ₹ 40,00,000 at the end of the year.

Q. No. 4. (b) Discuss the various types of dividend policy. Marks : 6

Q. No. 5. (a) Krupa Co. Ltd. has requested you to prepare a statement showing the working capital requirement for a level of activity of 1,56,000 units production. The following information is available. Marks : 10

Particulars	**Rate per Unit**
Raw materials	90
Overheads	75
Direct labour	40
Total cost	205
Profit	60
Selling price	265

(1) Raw materials are in stock, on an average 1 month.

(2) Materials are in process, 50% complete for average 2 weeks.

(3) Finished goods are in stock, on an average 1 month (Holding period).

(4) Credit allowed by suppliers, one month.

(5) The lag in payments from debtors is 2 months.

(6) Lag in payments of wages, 1 and a half weeks.

(7) Lag in payment of overheads 1 month. 20% of output is sold against cash. Cash in hand and at bank is expected to be 60,000. It is to be assumed that the production is carried on evenly throughout the year. Wages and overheads are occur similarly and a time period of 4 weeks is equivalent to a month.

Q. No. 5. (b) Write the advantages of working capital. Marks : 6

Q. No. 6. (a) What is working capital management ? Explain factors determining working capital management. Marks : 10

Q. No. 6. (b) Write a short note on working capital cycle. Marks : 6

Q. No. 7. (a) XYZ company is considering an investment proposal to install new machine at a cost of ₹ 1,00,000. The facility has a life of 5 years and no salvage value. The tax rates is 35%. Assume the firm uses straight line depreciation for tax purposes. Marks : 10

Year	CFBT (₹)	PV factor at 10%
1	10,000	0.909
2	10,692	0.826
3	12,769	0.251
4	13,462	0.683
5	20,383	0.621

Calculate :

(A) Payback period

(B) ARR

(C) NPV @ 10%

(D) PI @ 10%

Q. No. 7. (b) Write a short note on : Marks : 6

(a) Profitability index method.

(b) Internal rate of return method.

Q. No. 8. (a) What do you understand by a capital budgeting decision ? Why is capital budgeting so important to management ? Marks : 10

Q. No. 8. (b) Explain factors influencing capital structure of an MNC. Marks : 6

Q. No. 9. (a) S Ltd. is acquiring P Ltd. The shareholders of T Ltd. would receive 0.8 shares of S Ltd. for each share held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant data for the two companies are as follows : Marks : 10

Particulars	**A**	**B**
Net Sales (₹ crore)	700	250
Profit after tax (₹ crore)	120	25
Number of shares (crore)	24	6
Earning per share (₹)	4.83	4
Market value per share (₹)	30	20
Price earning ratio	6.21	5

For the combined company (after merger), you are required to calculate :

(a) EPS

(b) P/E ratio

(c) Market value per share.

Q. No. 9. (b) Write a short note on : Marks : 6

(1) Types of merger

(2) Reasons for merger.

Q. No. 10. (a) What do you mean by financial managements ? Briefly explain the functions of financial management. Marks : 10

Q. No. 10. (b) Write a note on Shorpe Linther Model. Marks : 6

IV Semester 5 Year B.B.A., LL.B./B.Com., LL.B.
Examination, April/May 2022 (Dec. 2021)
FINANCIAL MANAGEMENT

Duration : 3 Hours

Max. Marks : 80

Instructions : 1. Answer all five Units.
2. One essay type question and short note/problems is compulsory from each Unit.
3. Figures to the right indicate marks.
4. Answer should be written in English completely.

UNIT – I

Q. No. 1. a) The following is the capital structure of a company. Marks : 10

Source of capital	Bookvalue (₹)	Market value (₹)
Equity shares of ₹ 100 each	8,00,000	16,00,000
9% cumulative preference shares @ ₹ 100 each	2,00,000	2,40,000
11% debentures (₹ 100 each)	6,00,000	6,60,000
Retained earnings	4,00,000	–
	20,00,000	**25,00,000**

The current market price of the company's equity share is ₹ 200. For the last year the company had paid equity dividend at 25% and its dividend is likely to grow by 5% every year. The corporate tax rate is 30% and shareholders personal income tax rate is 20% calculate :

(i) Cost of capital for each source of capital.

(ii) Weighted average cost of capital on the basis of book value weights.

OR

Q. No. 1. a) A firm has the following capital structure and after tax costs for the different sources of funds used : Marks : 10

Source of funds	Amount (₹)	After tax cost (%)
Debt	4,50,000	7
Preference capital	3,75,000	10
Equity capital	6,75,000	15
	15,00,000	

Calculate the weighted average cost of capital using book value weights.

Q. No. 1. b) Write a short note on CAPM model. Marks : 6

OR

Q. No. 1. b) Explain the importance of cost of capital. Marks : 6

UNIT – II

Q. No. 2. a) A Co. Ltd. has equity share capital of ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for expansion and modernisation plans. The company plans the following financing schemes : Marks : 10

(i) All common stock

(ii) ₹ 1,00,000 in common stock and ₹ 2,00,000 in debt @ 10% p.a

(iii) All debt at 10% p.a

(iv) ₹ 1,00,000 in common stock and ₹ 2,00,000 in preference capital with the rate of dividend at 8%. The company's expected earnings before interest and tax (EBIT) are ₹ 1,50,000. The corporate rate of tax is 50%.

Determine the EPS in each plan and comment which alternative is best and why ?

OR

Q. No. 2. a) Discuss the determinants of capital structure. Marks : 10

Q. No. 2. b) Explain the assumptions of MM approach under dividend theory. Marks : 6

OR

Q. No. 2. b) Explain the forms of dividend. Marks : 6

UNIT – III

Q. No. 3. a) A proforma cost sheet of a company provides the following particulars : Marks : 10

Elements of cost	
Material	40%
Direct labour	20%
Overheads	20%

The following further particulars are available :

(i) It is proposed to maintain a level of activity of 2,00,000 units.

(ii) Selling price ₹ 12 per unit.

(iii) Raw materials are expected to remain in stores for an average period of one month.

(iv) Material will be in process, on average half a month and is assumed to be consisting of 100% raw materials, wages and overheads.

(v) Finished goods are required to be in stock for an average period of one month.

(vi) Credit allowed to debtors is 2 months.

(vii) Credit allowed by suppliers is one month.

Assume that sales and production follow a consistent pattern. Prepare a statement of working capital requirements.

OR

Q. No. 3. a) What is working capital ? Discuss the factors influencing working capital. Marks : 10

Q. No. 3. b) Write a short note on : Marks : 6

Inventory management.

OR

Q. No. 3. b) Cash management. Marks : 6

UNIT – IV

Q. No. 4. a) A company is considering investment in a project that costs ₹ 2,00,000. The project has an expected life of 5 years and zero salvage value. The company uses straight line method of depreciation. The company's tax rate is 40%. The estimated earnings before depreciation and tax from the project are as follows : Marks : 10

Year	Earnings before Depreciation and Tax (₹)	P.V. factor @10%
1	70,000	0.909
2	80,000	0.826
3	1,20,000	0.751
4	90,000	0.683
5	60,000	0.621

You are required to calculate net present value at 10% and advise the company.

OR

Q. No. 4. a) Bharath International, an India based multinational company is evaluating an overseas investment proposal. It is considering a project to build a plant in UK. The project will entail an initial outlay of £ 50 and is expected to generate the following cashflows over its four year life. Marks : 10

Year	Cashflow (in/million)
1	£ 20
2	£ 30
3	£ 20
4	£ 10

The current spot exchange rate is ₹ 98 per British pound (£), the risk-free rate in India is 7% and the risk-free rate in UK is 3%. Bharath International's required rupee return on a project of this kind is 20%.

Calculate NPV of the project using Home currency approach.

Q. No. 4. b) Write a short note on :

Multinational capital budgeting. Marks : 6

OR

Q. No. 4. b) Multinational working capital management. Marks : 6

UNIT – V

Q. No. 5. a) S Ltd. is taking over M Ltd. as per the understanding between the management of the two companies shareholders of M Ltd. would receive 0.7 shares of S Ltd. for each share held by them. The relevant data for the two companies are as follows : Marks : 10

	S Ltd.	M Ltd.
Net sales (₹ in lakhs)	80	30
Profit after tax (₹ in lakhs)	16	4
Number of shares (Lakhs)	3.2	1
Earnings per share (₹)	5	4
Market value per Share (₹)	30	20
Price-earning Ratio (P/E)	6	5

Ignoring the economics of scale and operating synergy, you are required to calculate :

(i) Number of shares after the merger

(ii) Combined P/E ratio

(iii) Total market capitalisation after the merger.

OR

Q. No. 5. a) A Ltd. wants to take over B Ltd. the financial details of both the companies are as below : Marks : 10

	A Ltd. (₹)	B Ltd. (₹)
Equity share capital of ₹ 10 each	2,00,000	1,00,000
Preference share capital	40,000	–
Share premium	–	4,000
P and L A/c	76,000	8,000
10% debentures	30,000	10,000
Total liabilities	**3,46,000**	**1,22,000**

Fixed assets	2,44,000	70,000
Current assets	1,02,000	52,000
Total assets	**3,46,000**	**1,22,000**
Profit after tax and preference dividend	48,000	30,000
Market price per share	24	27

You are required to determine the share exchange ratio to be offered to the shareholders of B Ltd. based on

(i) Net assets value

(ii) EPS

(iii) Market price

Which should be preferred from the point of view of A Ltd. ?

Q. No. 5. b) Write a short note on : **Marks : 6**

Advantages of merger.

OR

Q. No. 5. b) Reasons for merger. **Marks : 6**