****

COM 202.1 Reg. No. ……………………………

CREDIT BASED SECOND SEMESTER B.Com. DEGREE EXAMINATION APRIL 2013

COMMERCE

CORPORATE FINANCE

Time: 3 Hrs **Max. Marks: 80**

SECTION – A

Answer any Three questions. **3 x 20 = 60**

1. "The net income and net operating approaches present two opposite views with regard to the relationship between cost of capital and value of the firm" – Explain.
2. Explain the nature and scope of financial management.
3. A firm is considering two alternative projects requiring an investment of `1.55 crore, but with different cash flow profiles. Determine based on NPV, which project is more profitable and acceptable.

Year	Cash flows	
	Project X (` in lakhs)	Project Y (` in lakhs)
0	(155)	(155)
1	70	40
2	60	45
3	50	60
4	40	50
5	30	75

The cost of capital of the company can be assumed to be 20%.

4. Explain the advantages and disadvantages of Debentures as a source of long term finance.

SECTION – B

Answer any Three questions. **3 x 5 = 15**

5. What are the limitations of objective of profit maximization?
6. Illustrate any five features of Equity Shares?
7. The financial details of Reliance Group Companies for the year 2010 – 11 are given below. Calculate the cost of equity.

Company	Face Value (`)	Dividend (%)	Growth Rate in dividend (%)	Market Price (`)
A	10	32	12	458.05
B	10	5	6	19.75
C	10	50	8	516.70
D	10	100	4	931.60

8. A Ltd issued debentures worth `7,00,000 redeemable at a premium of 10%. It decided to create a sinking fund at 14% compound interest p.a. If debentures have a tenure of 4 years, calculate the amount to be transferred to Sinking Fund every year.

SECTION – C

Answer all the questions: **5 x 1 = 5**

9. What are preference shares?

10. Define Financial Management.
11. Vishnu Steels Ltd. had issued `30,000 irredeemable 14% debentures of `100 each. The cost of flotation is 5% of issue price and the tax rate is 40%. Calculate the cost of debt.
12. A firm has sales of `2,80,000 and average inventory of `27,000, what is the inventory turnover, if gross profit margin is 25% on sales?
13. State any two assumptions to MM approach.

****

COM 202.1 **Reg. No.**

……………………………

CREDIT BASED SECOND SEMESTER B.Com DEGREE EXAMINATION

APRIL 2014

COMMERCE

CORPORATE FINANCE

Time: 3 Hrs **Max. Marks: 80**

SECTION – A

Answer any THREE questions **3X20=60**

1. "Financial Management has expanded in its scope during last few decades". Examine the modern approach to the scope of Financial Management.
2. Critically evaluate the Modigliani Miller theory on Capital Structure.
3. The following are the financial statements of Arun Ltd.

Balance Sheet as on 31st December

Liabilities	`	Assets		`
Equity share capital of `10 each	50,000	Plant & equipment	2,00,000	
		Less: Depreciation	1,60,000	40,000
6% preference shares capital	20,000	Profit & loss		1,00,000
Mortgage loans	80,000	Inventory		10,000
Bills payable	40,000	Debtors (Previous year `40,000)		60,000
Taxes payable	30,000	Cash		10,000
	2,20,000			2,20,000

<u>Profit & Loss Account for the year ended 31st December</u>

To Stock in the beginning	80,000	By sales	2,40,000
To purchases	1,20,000	By stock at the end	1,00,000
To gross profit	1,40,000		
	3,40,000		3,40,000
To operating expenses:		By Gross profit	1,40,000
Selling expenses	30,000		
General and administrative Expenses	40,000		
To net operating income	70,000		
	1,40,000		1,40,000
To interest expenses	4,200	By net operating income	70,000
To income before tax	65,800		
	70,000		70,000
To income taxes	29,800	By income before tax	65,800
To net income after tax	36,000		
	65,800		65,800

You are required to calculate

i) Current Ratio
ii) Acid test Ratio
iii) Debtors turnover
iv) Number of days uncollectible (assume 360 days a year)
v) Inventory turnover
vi) Number of times interest earned
vii) EPS
viii) Rate of Return on equity share holder's equity
ix) Rate on total assets
x) Total debts to share holders equity

4. The following information has been extracted from the Balance Sheet of Jewel Limited as on 31.12.2013.

	Rs. in lakhs
Equity share capital	400
10% Debentures	400
18% Term Loans	1200
	2,000

a) Determine the weighted average cost of capital of the company, if it had been paying dividend at a consistent rate of 15% per annum.
b) What difference will it make, if the current price of the `100 share is `140?

SECTION – B

Answer any three questions: **3x5=15**

5. Briefly explain the various methods of valuation of shares.
6. Explain the limitations of Financial Statements.
7. Vandan Limited issued 10,000 debentures of 50 each carrying interest at 10% per annum. These were redeemable after 5 years at a premium of 10%. The issue expenses amounted to 5% of net proceeds of sale. Applicable tax rate is 40%. Calculate cost of debt if the issue is made

   a) at a premium of 5% b) at a discount of 10%.
8. Ethan Limited is considering a new project for Implementation.

   The forecasted cash flows are given for 5 years.

Year	1	2	3	4	5
Cash flows (`)	40,000	60,000	1,00,000	1,20,000	1,00,000

The Project cost is `2,60,000. Consider and determine the profitability of the project based on Net Present Value. Assume the interest rate at 12%

SECTION – C

Answer all the questions: **5x1=5**

9. Give the meaning of Capital Structure?
10. State any two differences between cash flow and fund flow statement.
11. List any 2 limitations of Profit Maximisation objective of financial management.
12. On February 2014, Vega Limited issued 1,00,000 preference shares of `10 each at a discount of 20%. The dividend was payable @ 14%. The share issue expenses amounted to 15% of face value of the share. Calculate the cost of preference shares.
13. A freehold estate worth `12,000 a year is sold for `2,40,000. Calculate the rate of interest.

****

COM 202.2 **Reg. No. ……………………………**

CREDIT BASED SECOND SEMESTER B.Com. DEGREE EXAMINATION
APRIL 2015
COMMERCE
FINANCIAL MANAGEMENT – I

Time: 3 Hrs **Max. Marks: :**

SECTION – A

Answer any THREE questions: **3×20=**

1. XYZ Ltd. has given the following particulars. Your are required to prepare a cash budget for three months ending 31st December 2014.

`

a)

Months	Sales	Materials	Wages	overheads
August	40,000	20,400	7,600	3,800
September	42,000	20,000	7,600	4,200
October	46,000	19,600	8,000	4,600
November	50,000	20,000	8,400	4,800
December	60,000	21,600	9,000	5,000

Credit terms are:

b) Sales/Debtors: 10% sales are on cash basis 50% of the credit sales are collected next month and the balance in following months.

Creditors: Materials 2 months, wages one month, overheads one month.

c) Cash balance on 1st October, 2014 is expected to be `80,000

d) A machinery will be installed in August, 2014 at a cost of `1,00,000. The monthly instalment of `5,000 is payable from October onwards.

e) Dividend at 10% on preference share capital of `3,00,000 will be paid on 1st December, 2014.

f) Advance to be received for sale of vehicle `20,000 in December.

g) Income-tax (Advance) to be paid in December `5,000

2. Determine the overall cost of capital from the following information.

Recent market prices of all these securities are:

	Capital
Debentures (`100 per debenture)	8,00,000
Preference shares (`100 per share)	2,00,000
Equity shares (`10 per share)	10,00,000
	20,00,000

External financing opportunities are:

i) `100 per debenture redeemable at par, 10 year maturity, 13% interest rate, 4% floatation cost.

ii) `100 per preference share redeemable at par, 10 year maturity, 14% dividend rate, 5% floatation cost.

iii) Equity shares `2 per share floatation costs and issue price `22. Dividend expected on equity share at the end of the year is `2 per share, anticipated growth rate in dividend is 7%. Corporate tax rate is 50%.

3. Prepare an estimate of working capital requirement from the following data of a manufacturing concern.

	`
Sales (credit period 3 months)	40,00,000
Raw materials	12,00,000
Wages paid 15 days in arrears	9,60,000
Manufacturing expenses 1 month in arrears	6,00,000
Administrative expenses 1 month in arrears	1,20,000
Sales promotion expenses payable in advance for 3 months	1,00,000
Income tax payable	25,000

The company enjoys one month's credit from supplier of raw materials. It maintains two months stock of raw materials and two months stock of finished goods. Cash balance is maintained at `50,000 as a precautionary balance.

Assume 10% for contingencies.

4. Define Financial Management. Describe the scope of Financial Management under the modern approach.

SECTION – B

Answer any THREE questions: **3×5=**

5. What are debentures? Explain its features.

6. X Ltd issued 15% preference shares of `100 each on January 10, 2013. They were redeemable at par after 5 years. Calculate the cost of preference shares

    i) If it is issued at par

    ii) If it is issued at a discount of 10%

    iii) If it is issued at a premium of 25%

7. Amrutha Ltd provides the following particulars for the year 2014.

a)	Average Debtors	7,00,000
b)	Average period of credit allowed	20 days
c)	Raw material consumed	`48 lakhs
d)	Cost of production	`1.08 crore
e)	Cost of goods sold	`2.25 crore
f)	Credit sales	`2.10 crore

Average Inventory: Raw materials `4 lakh; work in progress `3 lakh, Finished goods `5 lakh. Calculate working capital requirement based on operating cycle assuming 360 days for a year.

8. What are the motives for holding cash?

SECTION – C

Answer all the questions: **5×1**

9. What is Fixed Working Capital?

10. The annual demand for an item is 3,200 units. The unit cost is `6 and inventory carrying charges 25% p.a. If the cost of one procurement is `150, determine Economic Order Quantity.

11. What is meant by factoring?

12. Modern Limited's share beta factor is 1.40. The risk free rate of interest on government securities is 9%. The expected rate of return on company equity shares is 16%. Calculate cost of equity capital based on capital Asset Pricing Model.

13. What is agency problem?

****

COM 202.2 Reg. No. ....

CREDIT BASED SECOND SEMESTER B.Com. DEGREE EXAMINATION APRIL 2016
COMMERCE
FINANCIAL MANAGEMENT – I

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE questions: **3×20=60**

1. The sales forecast for January to May 2016 and actual sales for November and December 2015 for Anurag company are given as under:

Month	Sales (₹)
Actual:	
November 2015	80,000
December 2015	70,000
Forecast:	
January, 2016	80,000
February, 2016	1,00,000
March, 2016	80,000
April, 2016	1,00,000
May, 2016	90,000

20% of sales is in cash and rest is on credit, payment of which is realized in the third month. The following other information are also available:

a) Amount of purchase is budgeted at 60% of the sales turnover of a month and paid in the third month of purchase.
b) Variable expenses is 5% of turnover - time lag of payment one month.
c) Rent and other expenses amounting ₹3,000 paid every month.
d) Payment for purchase of fixed assets ₹50,000 in March 2016.
e) Payment for taxes in April 2016 ₹20,000.
f) There will be an opening cash balance of ₹2,50,000.

Prepare a Cash Budget for five months from January to March 2016.

2. A Ltd has the following capital structure

	₹
Equity share capital (3,00,000 shares)	30,00,000
6% Preference shares	20,00,000
8% Debentures	40,00,000
	90,00,000

The market price of the company's equity share is ₹30. It is expected that the company will pay a current dividend of ₹5 per share, which will grow at 20% forever. The tax rate may be presumed at 35%. You are required to compute the following:

a) A weighted average cost of capital based on existing capital structure.
b) The new WACC, if the company raises an additional ₹20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹8 and leave the growth unchanged, but the price of the share will fall to ₹15 per share.

3. The proforma cost sheet of a company shows the following particulars.

Elements of Cost	Amount per unit (₹)
Raw materials	70
Direct labour	30
Overheads	50
Profit	50
Selling Price	200

The following particulars are available:

a) Raw materials are in stock on an average for two months.
b) Materials are in process on an average for one month.
c) Finished goods are in stock on an average for two months.
d) Credit allowed by creditors is two months.
e) Credit allowed to customers is two months
f) Lag in payment of wages is one month
g) Lag in payment of overhead expenses is one month
h) $1/4^{th}$ of the output is sold for cash
i) Cash in hand and at bank is expected to be ₹30,000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 52,000 units of production.

4. Explain the various sources of long term finance.

SECTION – B

Answer any THREE questions: **3×5=15**

5. Describe Wealth Maximisation objective of Financial Management.

6. Vanuate Plantation Ltd issued 10,000 debentures of ₹50 each, carrying interest at 10% per annum. These were redeemable after 5 years at a 10% of premium. The issue expenses amounted to 5% of net proceeds of sales. Applicable tax rate is 30%.

   Calculate cost of debt if the issue is made:

   a) at par b) at a premium of 5% c) at a discount of 10%.

7. Adithi Enterprises furnishes the following particulars from which you are required to estimate working capital requirement using operating cycle.

   i) Average Inventory:

Raw Material	₹4,00,000
Work in Progress	₹6,00,000
Finished Goods	₹8,00,000

   ii) Particulars of Daily operation:

Raw material consumed	₹40,000
Cost of production	₹1,00,000
Cost of goods sold	₹1,60,000
Credit sale	₹1,50,000
Credit purchases	₹80,000

iii) Total Debtors	₹18,00,000
iv) Total Creditors	₹10,40,000

8. Explain any five marketable securities.

SECTION – C

Answer ALL the questions: **5×1=5**

9. What is meant by Agency problem?

10. The annual demand for an item is 6,400 units. The unit cost is ₹12 and inventory carrying charges 25%p.a. If the cost of one procurement is ₹300, determine EOQ.

11. State the meaning of Temporary working capital.

12. What is Transaction motive with regard to cash management?

13. What is meant by Trade Credit?

****