

DATE:05-03-22

Registration number:

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| **ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27** |
| **B.COM - III Semester** |
| **END SEMESTER EXAMINATION: Oct 2021(Conducted in Feb-Mar 2022)** |
| **BC/BPS 3218 – Financial Management***This question paper has \_\_3\_\_\_ printed pages* |
| **Time- 2.5 hour** |  |  **Max Marks-70** |

 **Section A**

Answer ***any five*** of the following **(5 x 2 = 10marks)**

1. Define capital budgeting

2. What is wealth maximization?

3. State any four sources of short term financing.

4.Mention any 2 merits of net present value

5. What is trade credit?

6.A limited issues 1000,10% preference shares of rupees 100 each at a discount of 5% cost of issue is rupees 2000. Compute cost of preference capital.

**Section B**

II. Answer ***any three*** of the following **(3 x 5 = 15marks)**

7. What is over capitalization? Explain its impact.

8. Determine the accounting rate of return for the following two machines X and Y.

|  |  |  |
| --- | --- | --- |
| Particulars | Machine X | Machine Y |
| Original Cost | 60,000 | 60,000 |
| Additional Investment in working capital | 4000 | 5000 |
| Estimated life in years | 4 years | 4 years |
| Estimated salvage value | 2000 | 2000 |
| Income tax | 50% | 50% |
| Annual estimated income after depreciation and tax:1st year 2nd year 3rd year 4th year5th year | 5000700090001100015000 | 60008000100001200014000 |

Depreciation has been charged on straight line basis.

9. The Balance sheet of a company is as under:

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities  | Amount | Assets  | Amount |
| Equity Capital(Rs 10) | 60,000 | Fixed assets | 1,75,000 |
| 10% debentures | 80,000 | Current assets | 50,000 |
| Retained earnings | 50,000 |  |  |
| Current liabilities | 35,000 |  |  |
|  | **2,25,000** |  | **2,25,000** |

The Asset turnover ratio is 4.The fixed costs are 10,000 and the variable cost is 40% of sales. Tax rate is 40%.Calculate operating leverage and financial leverage.

10. Explain the various forms of dividend.

**Section C**

III. Answer ***any two***of the following **(2 x 15= 30marks)**

11. Elaborate in detail the determinants of working capital.

12. YES Company is considering an investment in a project requiring a capital outlay of Rs.2,00,000. The annual income from the project after depreciation but before taxes are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year 1 | Year2 | Year3 | Year4 | Year5 |
| 1,00,000 | 1,00,000 | 80,000 | 80,000 | 50,000 |

The rate of depreciation is 20% on original cost. Tax rate is 40%.Ascertain

a. Pay-back period

b. NPV at 15% discounting rate.

13. Kishen limited wishes to raise additional finance of rupees 20,00,000 for meeting its investment plants .It has ₹4,20,000 in the form of retained earnings. The following details are available with respect to the additional sourcing.

a. Debt equity mix is 30 :70.

d. interest for debt up to 3,60,000 is 10% and above 3,60,000 is 16%

c. growth rate is 10%; current market price of equity is Rs. 44 and dividend paid last year is Rs.2.

**Estimate**

 a. The pattern of raising the additional finance

b. Find out the cost of debt and cost of equity for the additional finance

**Section D**

IV. Answer the following question **(1 x 15= 15marks)**

14. Capital structure of NR Ltd. is as under:

|  |  |
| --- | --- |
| Equity share capital (Rs.100 each) | 25,00,000 |
| 12% debentures | 25,00,000 |
| TOTAL CAPITAL | 50,00,000 |
| TOTAL ASSETS | 50,00,000 |

The companies return on investment is 12% on the entire capital. Tax rate is 50%, you are required to estimate:

a. EPS and financial leverage

b. percentage change in EPS if the debt is raised to 75%

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