

# PP SAVANI UNIVERSITY

Fourth Semester of B Com Examination

May 2022

SMBC2190 Financial Management

10.05.2022, Tuesday

Time: 09:00 a.m. To 11:30 a.m.

Maximum Marks: 60

## Instructions:

1. The question paper comprises of two sections.
2. Section I and II must be attempted in same answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.
4. Use of simple calculator is allowed.

## SECTION - I

Q - 1 Answer the following Questions (Any five) [05]

- (i) Define : "Financial Management"
- (ii) Give the formulae to calculate the cost of equity share using dividend growth model
- (iii) What is the Meaning of wealth maximization
- (iv) How do you compute the future value of a single cash flow?
- (v) What do you mean by trading on equity?
- (vi) What do you mean by time value of money?
- (vii) What is discounting technique?

Q - 2 (a) What is the meaning of Financial Management? Explain the objectives of Financial Management. [05]

Q - 2 (b) Mr. X deposits ₹ 2,000 at the end of every year for 5 years in his saving account paying 5% interest compounded annually. He wants to determine how much sum of money he will have at the end of the 5<sup>th</sup> year. [05]

## OR

Q - 2 (a) Enumerate the three major decisions taken by finance functions. [05]

Q - 2 (b) Suppose you deposit Rs. 1000 today in a bank which pays 10% interest compounded annually, how much will the deposit grow to after 8 years and 12 years? [05]

Q - 3 A Firm's after-tax cost of capital of the specific sources is as follows: [10]

Cost of debt	8%
Preference Capital	14%
Cost of equity funds	17%

The following is the capital structure

Sources	Amount
Debt	₹3,00,000
Preference Capital	₹2,00,000
Equity Capital	₹5,00,000
	<b>₹10,00,000</b>

Calculate the weighted average cost of capital,  $k_0$ , Using book value weights.

## OR

Q - 3 Discuss the Importance of Cost of Capital in Financial Management. [10]

Q - 4 Attempt any one. [05]

- (i) Compute the cost of capital of 12% debentures issued by XYZ Ltd., face value of ₹100, amounted of ₹200000, in following situations. The life of debenture is 7 years.
  - (i) Issued at par, redeemable at par.(Tax rate 20%)
  - (ii) Issued at 10% Premium.(Tax Rate 30%)

- (iii) Issued at 10% discount.(Tax Rate 40%)  
**(ii)** Discuss long term and short term sources of finance.

**SECTION - II**

- Q - 1** Answer the following Questions (Any five) **[05]**  
**(i)** What are the current assets?  
**(ii)** What is liquidity?  
**(iii)** What do you mean by "operating leverage"  
**(iv)** Define capital structure?  
**(v)** What do you mean by 'trading on equity'?  
**(vi)** Expand EAT, EBIT and PAT.  
**(vii)** Explain the net working capital?

- Q - 2 (a)** "Working capital must be adequate but at the same time not excessive." Comment? **[05]**  
**Q - 2 (b)** Write shorts notes on the following:- **[05]**  
 i. Operating cycle of working capital  
 ii. Types of working capital

**OR**

- Q - 2** X Co. Ltd. is considering three different plans to finance its total project cost of Rs. 100 lacs. **[10]**  
 These are:

	(Rs. In Lacs)		
	Plan A	Plan B	Plan C
Equity (Rs. 100 per share)	50	34	25
8% Debentures	50	66	75
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Sale for the first three years of operation are estimated at Rs. 100 lacs, Rs.125 lacs and Rs.150 lacs and a 10% profit before interest and taxes is forecast to be achieved, Corporate taxation to be taken at 50%. Compute earnings per share in each of the alternative plans of financing for the three years and evaluate the proposals.

- Q - 3** What is the concept of working capital? What factors determine the needs of working capital? **[10]**

**OR**

- Q - 3** Calculate the Operating Leverage, Financial Leverage & Combined Leverage for a firm using the following information:- **[10]**  
 Sales 1,000 Units at Rs. 100 per unit  
 Variable Cost at Rs. 30 per unit  
 The Fixed Cost is Rs. 30,000  
 Also 10% Debentures of Rs.1, 00,000 were raised by the firm.

- Q - 4** Attempt any one. **[05]**  
**(i)** Determine Economic Ordering Quantity  
 Annual requirement of inventory      40000 units  
 Cost per unit                                      Rs. 16  
 Carrying costs are likely to be              15 %  
 Cost of placing an order                      Rs. 480 per order  
**(ii)** Explain the meaning of the term capital structure and discuss the factors affecting capital structure.

\*\*\*\*\*