

**Credit Based V Semester B.Com. Degree  
Examination, November/December 2015**

**(2008-09 Batch)**

**COMMERCE**

**Financial Management – I**

Time : 3 Hours

Max. Marks : 120

**Instruction : Provide working notes wherever necessary.**

**SECTION – A**

Answer any four :

(4×6=24)

1. What are the features of Book-Building ?
2. Explain the features of "Debt".
3. Mahesh Batteries Ltd. estimates a sale of 20,000 units at ₹ 20 per unit. The variable cost is expected to be ₹ 5 per unit. While fixed cost is likely to be ₹ 1,00,000, interest payable would be ₹ 50,000. The company is in 50% tax bracket. Calculate :
  - a) The operating leverage
  - b) The Financial leverage and
  - c) The combined leverage.

What effect a 25% increase in sales will have on leverages ?

4. Shakthi components Ltd. is a Bombay based automobile components manufacturer. It furnishes the operating details and the balance sheet as on 31-3-2014.

**Balance Sheet as on 31-3-2014**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Equity Shares	80,000	Investments	40,000
Preference Shares	40,000	P/L A/c	20,000
Borrowed Funds	1,00,000	Preliminary Expenses	30,000
Current Liabilities	40,000	Fixed Assets	1,70,000
	<b>2,60,000</b>		<b>2,60,000</b>

P.T.O.



**Operating Details :**

Sales 1,000 Units at ₹ 170 per Unit

Material Cost ₹ 35 per Unit

Labour Cost ₹ 15 per Unit

Fixed Cost ₹ 50,000

Calculate the return on investment of the Company.

5. From the following data, calculate the Beta and Alpha of shares of Company A and Company B.

	Arithmetic mean	$\sigma$	$\gamma$
Market mean	13%	3%	-
Shares of A	15%	3.5%	0.8
Shares of B	12%	2.5%	0.7

6. Explain the grouping of shares in the National Stock Exchange.

**SECTION – B**

Answer any four :

(4×12=48)

- Describe the various types of speculators in the stock market.
- What are the various functions of SEBI ?
- Explain Financial Management under modern approach.
- ABC Company's latest Balance Sheet is as follows :

Liabilities	₹	Assets	₹
Equity Capital		Net Fixed Assets	1,50,000
(₹ 10 per share)	60,000	Current Assets	50,000
10% Long term Debt	80,000		
Retained Earnings	20,000		
Current Liabilities	40,000		
	<b>2,00,000</b>		<b>2,00,000</b>

The company's total Assets turnover ratio is 3. Its Fixed operating costs are ₹ 1,00,000 and variable cost ratio is 40%. The Income Tax rate is 50%.

- Calculate for the company all the three types of leverages.
- Determine the likely level of Earning Before Interest and Tax (EBIT) if Earnings per Share (EPS) is (A) Re.1, (B) Rs. 3, (C) Re. 0, (D) Rs. 4 and (E) Rs. 2.



11. The share prices of Tata Motors and Maruti Udyog are given for the two weeks between August 19, 2013 and September 19, 2014. Compare the Share prices by calculating the Co-efficient of variation.

Tata Motors (₹)	Maruti Udyog (₹)
468	452
476	458
470	460
461	464
471	461
472	464
480	482
480	482
484	481
478	476

12. Two projects are under the consideration of a small scale industry. The projected data for both the projects are given below. Advise the company about the less riskier project based on sensitivity analysis by calculating return on investment and its range.

#### Project X

Particulars	Optimistic	Expected	Pessimistic
Sales (Units)	10,000	9,000	8,000
Selling Price per Unit	₹ 20	18	16
Material Cost per Unit	₹ 1	2	3
Labour cost per Unit	₹ 2	3	4
Fixed cost	₹ 40,000	45,000	50,000
Capital Employed	₹ 1,60,000	1,70,000	2,00,000

#### Project Y

Particulars	Optimistic	Expected	Pessimistic
Sales (Units)	11,000	9,000	8,000
Selling Price per Unit	₹ 20	16	15
Material Cost per Unit	₹ 1	2	3
Labour cost per Unit	₹ 1	3	4
Fixed cost	₹ 40,000	50,000	60,000
Capital Employed	₹ 1,50,000	2,00,000	2,50,000



SECTION - C

Answer any two :

(2×24=48)

13. Explain in detail the procedures involved in the public issue of equity shares.
14. What is a stock exchange ? What are the functions of a stock exchange ?
15. KKK Engineering Ltd. has an equity share capital of ₹ 7,00,000 divided into equity shares of ₹ 10 each. It also enjoys an ebit of ₹ 1,50,000. It wants to expand its capacity for which it requires additional long term funds of ₹ 8,00,000. It has four alternative plans. The future Earnings before Interest and tax (EBIT) is estimated to be ₹ 2,50,000 and the tax rate is expected to be 40%. The four alternative plans are given below :
  - a) All Equity
  - b) All the additional fund by issue of 10% debentures.
  - c) ₹ 4,00,000 by issue of Equity shares and the remaining ₹ 4,00,000 by issue of 10% debentures.
  - d) ₹ 2,00,000 by issue of equity shares, ₹ 3,00,000 By issue of 15% preference shares and the remaining ₹ 3,00,000 by issue of 10% Debentures.

Calculate the Financial Leverage and Earnings per share for the alternative plans.

16. A) For the months of Jan-June, the return on stock prices of company A Ltd. and Company B Ltd. are given below along with the market return. Calculate the beta and alpha of both the stocks.

Months	Market return (%)	Return on Company A Securities (%)	Return on Company B Securities (%)
J	8	9	13
F	11	12	14
M	10	8	12
A	13	12	10
M	10	11	15
J	20	14	14

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- B) A Ltd. Company present the following facts :

Sales – 20,000 Units @ ₹ 10 per Unit.

Material Cost – ₹ 4 per Unit.

Wages – ₹ 2 per Unit.

Fixed cost – ₹ 10,000.

Capital Employed ₹ 1,00,000.

Calculate Return on Investment.

Also calculate the range of return on investment for the following situations :

- i) Material cost goes up by 25%
- ii) Labour cost increases by 20%
- iii) Sales declines by 20%
- iv) Fixed cost increases by 25%.