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BCMCMC 313

**Credit Based V Semester B.Com. Degree Examination,
October/November 2017
(New Scheme) (2016-17 Batch)
FINANCIAL MANAGEMENT – I
Commerce**

Time : 3 Hours

Max. Marks : 120

Instructions : Provide working notes *wherever* necessary.

SECTION – A

Answer any four :

(4×6=24)

1. Describe wealth maximisation. Explain its any four merits.
2. Explain the merits of debt.
3. What are the functions of SEBI ?
4. Prakash retires from Steller Shinewell (P) Ltd., and is eligible to receive a pension of ₹ 1,20,000 per year. The pension is payable for a period of 10 years. The company has an alternative retirement plan, whereby Prakash is eligible to receive a lumpsum amount instead of the pension. Assuming a compound interest at 6% per annum, calculate the amount that will be paid immediately as per the alternative plan.
5. Consider the following information for Kaunark Enterprise :

₹ in lakhs

EBIT 1,120

EBT 320

Fixed cost 700

Calculate the percentage change in earnings per share if sales increased by 5 per cent.

6. Bhramari Limited has equity capital of ₹ 8,00,000, preference share capital of ₹ 4,00,000, reserves and surplus ₹ 6,00,000, debentures to the extent of ₹ 30,00,000 and long term loan from IFCI Ltd. at ₹ 15,00,000. It has ₹ 3,00,000 miscellaneous expenditure on the asset side. Calculate the debt-equity ratio.

P.T.O.



SECTION – B

Answer any four :

(4×12=48)

7. Explain the scope of financial management under traditional approach.
8. What are the merits and demerits of book-building process ?
9. A firm's sales, variable cost and fixed cost amounted to : ₹ 75,00,000, ₹ 42,00,000 and ₹ 6,00,000 respectively. It has borrowed ₹ 45,00,000 at a per cent and its equity capital totals ₹ 55,00,000.
 - a) What is the firm's ROI ?
 - b) What are operating, financial and combined leverage of the firm ?
10. The Alpha Ltd. is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested, each costing ₹ 4,00,000. Cash inflows expected to be as follows :

Year	Cash in flow	
	Machine A	Machine B
	₹	₹
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target return on capital at 10%. You are required to compare the profitability and state which alternative you consider financially preferable.

11. Two projects are under the consideration of a small scale industry. Calculate the ROI and also its range. Which project is riskier based on larger range ?

	Project Kaveri		
	Optimistic	Expected	Pessimistic
Sales (units)	15,000	14,000	13,000
Selling price (per unit ₹)	30	25	20
Material cost (per unit ₹)	10	11	12
Labour cost (per unit ₹)	1	2	3
Fixed cost (₹)	10,000	13,000	15,000
Capital employed (₹)	80,000	90,000	1,00,000

**Project Nethravathi**

	Optimistic	Expected	Pessimistic
Sales (units)	16,000	14,000	12,000
Selling price (per unit ₹)	35	25	15
Material cost (per unit ₹)	9	10	11
Labour cost (per unit ₹)	1	2	3
Fixed cost (₹)	7,000	8,000	9,000
Capital employed (₹)	70,000	80,000	90,000

12. Two alternative plans are under consideration of Sri Mookambika Engineering Ltd. The forecasted figures are submitted to you.

Project A**Project B**

Net profit (₹ in crores)	Probability	Net profit (₹ in crores)	Probability
40	0.1	43	0.2
41	0.2	44	0.2
42	0.2	45	0.1
43	0.1	46	0.2
44	0.3	47	0.1
45	0.1	48	0.2

Determine the risk profile of the two projects through their standard deviation.

SECTION – C

Answer any two :

(2×24=48)

13. Explain the role of financial intermediaries involved in the public issue of equity shares.
14. What is speculation in stock exchange ? Explain the various speculative transactions in the stock exchange.



15. Vishwaroopa Ltd. is planning to buy a Ltd. Co.; for expanding its capacity. The details of the three companies under consideration are given below :

Operational details	Beautiful Ltd.	Merciful Ltd.	Wonderful Ltd.
Sales (units)	1,00,000	1,20,000	80,000
	₹	₹	₹
Selling price/unit	18	20	21
Variable cost/unit	4	5	5
Fixed cost	6,00,000	7,00,000	7,00,000
Financial details			
Equity shares (₹ 10 each)	10,00,000	8,00,000	6,00,000
15% pref. shares (₹ 100 each)	—	2,00,000	2,00,000
10% debentures (₹ 100 each)	—	—	2,00,000

Assuming a tax rate of 50% calculate financial leverage, operating leverage and combined leverage of three companies.

Advise Vishwaroopa Ltd. about the best company to be bought based on the EPS.

16. The returns on stock of Axis Bank Ltd. and the market portfolio for a 10 year period are given below :

Year	Return on Axis Bank Ltd. (%)	Return on Market portfolio %
1	10	12
2	6	5
3	13	18
4	4	8
5	13	10
6	14	16
7	4	7
8	18	15
9	24	30
10	22	35

Calculate the beta and alpha for the stock Axis Bank.