Reg. No. | | | | | | | | |

BCMCMC 313

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

Time : 3 Hours Max. Marks : 120

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

SECTION – A

Answer **any four.** **(4×6=24)**

1. Describe wealth maximisation as an objective of financial management.

2. Give a brief account of the Bull and the Bear speculators in the stock market.

3. A Machine costs Rs. 3,00,000 and its effective life is estimated to be 6 years. A sinking fund is created for replacing the machine at the end of its effective life time, when its scrap realizes a sum of Rs. 20,000 only. Calculate the amount which should be provided every year for the sinking fund if it accumulates 8% p.a. compounded annually.

4. Nataraj Paper Ltd.'s Balance Sheet as on 31st March 2015 is as follows :

	Amount (in lakhs)
Equity share capital (5,00,000 shares of Rs. 10 each)	50
Preference share capital (12%) (10,000 shares of Rs. 100 each)	10
Share premium	20
General reserve	10
Non convertible debentures (14%) fully secured	45
Current liabilities	5
Total	**140**

Calculate the Debt Equity ratio.

P.T.O.

5. From the following data calculate the beta and alpha of shares of Company S and Company T.

	Arithmetic Mean	Standard Deviation	Correlation Coefficient
Market Mean	13%	3%	–
Shares of S	15%	3.5%	0.08
Shares of T	12%	2.5%	0.07

6. Explain the rationale for the issue of equity shares by a company.

SECTION – B

Answer **any four** questions. **(4×12=48)**

7. Explain the scope of Financial Management under modern approach.

8. What is a stock exchange ? What are functions of a stock exchange ?

9. The operating details of Reddys home products are given below.

   No. of units sold : 25,000

   Selling price per unit Rs. 12

   Material cost per unit Rs. 4

   Labour cost per unit Rs. 5

   Fixed cost Rs. 30,000

   Calculate the operating profit for the above. Determine the effects of any of the following possibilities on operating profits :

   a) 10% decline in sales price

   b) 25% increase in material cost

   c) 20% increase in fixed cost.

10. Based on the data given below, ascertain which of the two projects would be more risky based on the coefficient of variation ?

Project A		Project B	
Cash Flow (Rs.)	**Probability**	**Cash Flow (Rs.)**	**Probability**
3,000	0.10	2,000	0.10
3,500	0.20	3,000	0.25
4,000	0.40	4,000	0.30
4,500	0.20	5,000	0.25
5,000	0.10	6,000	0.10

11. An abstract of the operating details and the capital employed relating to Mahooth Marine Products Ltd. are given below.

Units Sold	25,000
Unit Selling price	Rs. 15.00
Unit Material Cost	Rs. 6.00
Unit Labour Cost	Rs. 4.00
Fixed Cost	Rs. 30,000
Capital employed	Rs. 2,00,000

Calculate the Return on Investment. Also calculate the range of ROI for the following situations.

i) Sales price decline by 10%

ii) Material cost goes up by 25%

iii) Labour cost increases by 25%

iv) Fixed cost increases by 20%.

12. Castle Ltd. is planning to either replace an existing machine with a similar one (Project X) or of purchasing an expensive machine with a greater capacity (Project Y). The cash flows under each alternative have been estimated and given below. The Company's cost of capital is 10% after tax.

	Project X (0000's)	Project Y (0000's)
Initial Investment	(27)	(40)
Cash inflows – Year		
2017	Nil	10
2018	05	14
2019	22	16
2020	14	14
2021	14	15

You are required to give your recommendations on the project based on Net Present Value.

SECTION – C

Answer **any two** questions. **(2×24=48)**

13. Explain in detail the procedure for the issue of shares through the book building process.

14. Discuss the powers and functions of the Securities and Exchange Board of India (SEBI).

15. ZBB Ltd. has an existing capital structure consisting of 1,00,000 equity shares of Rs. 10 each. It further needs Rs. 50,00,000 for the construction of a new plant. The following three financial plans are feasible.
    i) The company may issue 5,00,000 equity shares at Rs. 10 each.
    ii) The company may issue 2,50,000 equity shares at Rs. 10 each and 25,000 debentures of Rs. 100 each bearing a 8% rate of interest.
    iii) The company may issue 2,50,000 equity shares at Rs. 10 each and 25,000 preference shares at Rs.100 each bearing 8% rate of dividend. If the company's EBIT are Rs. 2,00,000, Rs. 4,00,000, Rs. 8,00,000, Rs. 10,00,000 and Rs. 12,00,000, what are the earnings per share under each financial plans ? Which alternative would you recommend and why ? Assume corporate tax rate to be 50 %.

16. The Returns on the Two Stocks and the market is given below. Calculate the Alpha and Beta of the stocks.

Year	**Return on market portfolio (%)**	**Return on Stock ABC (%)**	**Return on Stock XYZ (%)**
1	12	10	8
2	5	6	10
3	18	13	6
4	12	6	12
5	10	13	4
6	16	14	5
7	7	4	15
8	15	18	18
9	30	24	20
10	35	22	25