

Question paper format for 80 marks

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Question Paper

Internal Assessment Examinations - March 2022

Subject: Financial Management

Class: II Year B.Com / BBA LLB

Max Marks: 10

Time : 1 Hr

Instructions:

1. Answer any one essay type question from Part A and any one short note question from Part B.
2. Essay type question carries 7 marks and the short note question carries 3 marks.

Part A

7 x 1= 07

1. The board of management of Rishi & company ltd has requested you to prepare a statement showing the working capital requirement for a level of activity of 1,50,000 units production. The following information is available:

| Particulars          | Rate per unit |
|----------------------|---------------|
| Raw materials        | 100           |
| Overheads            | 50            |
| Direct labour        | 35            |
| <b>Total cost</b>    | <b>185</b>    |
| Profit               | 80            |
| <b>Selling price</b> | <b>265</b>    |

- Raw materials are in stock, on average one month.
  - Materials are in process, on average 3 weeks.
  - Finished goods are in stock, on an average one month. (holding periods)
  - Credit allowed by suppliers, one month.
  - The lag in payments from debtors is 2 months.
  - Lag in payment of wages, 1 and a half weeks.
    - a. 25% of output is sold against cash. Cash in hand and at bank is expected to be 60000.
    - b. It is to be assumed that the production is carried on evenly throughout the year. Wages and overhead occur similarly and a time period of 4 week is equivalent to a month.
2. Neal company ltd. has the following capital structure.

|                                     |                  |
|-------------------------------------|------------------|
| Equity share capital (2,000 shares) | 40,00,000        |
| 6% preference shares                | 10,00,000        |
| 8% debentures                       | <u>30,00,000</u> |
|                                     | <b>80,00,000</b> |

The market price of the company's equity share is ₹ 20. It is expected that the co. Will pay current dividend of ₹ 2 per share, which will grow at 7% forever. The tax rate may be presumed at 40%

You are required to compute the following:

- WACC based on the existing capital structure
- The new WACC if the co. Raises additional of ₹ 20,00,000 debt by issuing 10% debentures. This would increase the expected dividend to ₹ 3 and leave the growth rate unchanged but the price of the share will fall to ₹ 15 per share.
- The cost of capital if in (b) above growth rate increases to 10%

Or

Part B

3 x 1=03

1. Elucidate efficient market hypotheses.
2. What is cash? Elucidate the motives of cash management.