1617/0432/3055/1717

Fourth Semester 5 Years B.Com.LL.B./B.B.A.LL.B. Examination, July/August 2026
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions :
1. **Answer Q. No. 9 and any five of the remaining questions.**
2. **Q. No. 9 carries 20 marks and the remaining questions carry 16 marks each.**
3. **Answers should be written in English Completely.**
4. **Use simple calculator only.**

Q. No. 1. Explain the Modigliani-Miller approach of capital structure. Marks : 16

Q. No. 2. Explain the types of working capital and the importance of working capital management. Marks : 16

Q. No. 3. Company 'C' has the following capital structure. Marks : 16

Sources	Book Value	Market Value	Specific Cost
Debentures	4,00,000	3,80,000	5
P/S capital	1,00,000	1,10,000	8
E/S capital	6,00,000	12,00,000	15
Retained earnings	2,00,000	–	13
Total	**13,00,000**	**16,90,000**	–

Determine WACC at Book Value and Market Value. How are they different from each other ?

Q. No. 4. Compute the market value of the firm and the average cost of capital from the following information. Marks : 16

Net operation income 2,00,000

Total investment 10,00,000

Equity capitalization rate

a) If the firm uses no debt 10%

b) If the firm uses 4,00,000 debentures 11%

c) If the firm uses 6,00,000 debentures 13%

Assume that 4,00,000 debentures can be raised at 5% rate of interest whereas 6,00,000 debentures can be raised at 6% rate of interest.

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Q. No. 5. From the following information calculate Net Present Value of two projects and suggest which of two projects should be accepted assuming a discount rate 10%. Marks : 16

	Project X	Project Y
Cost of investment	60,000	90,000
Scrap value	3,000	6,000
Estimated life	5 years	5 years

Profit before depreciation and after taxes (cash inflows)

Year	Project X (₹)	Project Y(₹)
1	15,000	60,000
2	30,000	30,000
3	30,000	15,000
4	9,000	9,000
5	6,000	6,000

The cost capital of the company is 10%. The following are the present value factors @ 10% per annum.

Year	P.V. Factor at 10%
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	0.564

Q. No. 6. Explain various types of merger with example. Marks : 16

Q. No. 7. What is cost of capital ? Explain the factors and problems associated with determination of cost of capital. Marks : 16

Q. No. 8. Write short notes on **any two** of the following : Marks : 2×8=16

(a) Internal rate of return and profitability index method.

(b) Types of dividend policies.

(c) Working capital management.

Q. No. 9. Solve **any two** of the following problems. Marks : 2×10=20

(a) 'G' Ltd. is expecting an annual EBIT of ₹ 2,00,000. The company has 10% debentures worth ₹ 8,00,000. The equity capitalisation rate is 12.5%. Calculate the value of the firm under Net Income Approach. If the company desires to increase debenture debt to Rs. 10,00,000. What shall be the value of the firm and the overall capitalisation rate ?

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(b) From the following information 'Y' company, calculate the working capital requirements.

The expected ratios to selling price are :

Raw materials	40%
Labour	20%
Overheads	20%

The following further particulars are available :

i) It is proposed to maintain a level of activity of 50,000 units.

ii) Selling price is Rs. 20 per unit.

iii) Raw materials are kept in store for an avg. of 1 month.

iv) Materials will be in process for an average of 1 month with 100% completion of materials and with 50% completion of conversion costs (Labour and overhead).

v) Finished goods remain in stock for an average period of 1 month.

vi) Credit allowed by suppliers is 2 months.

vii) Credit allowed to debtors is 1 month.

(c) A company is acquiring B company. A will pay 0.5 of its shares to the shareholders of B for each share held by them. The data for the two companies are as given below.

Particulars	A	B
Profit after Tax (₹ lakh)	150.00	30.00
Number of shares (in lakh)	25.00	8.00
Earning per share (₹)	6.00	3.75
Market price of share (₹)	78.00	33.75
Price earning ratio	13.00	9.00

Calculate the earning per share of the surviving firm after the merger. If the price earning ratio falls to 12 after the merger, what is the premium received by the share holders of B (using the surviving firm's new price) ? Is the merger beneficial for A's shareholders ?

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