

D 70925

(Pages : 3)

Name.....13.....

Reg. No.....

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2014

(UG-CCSS)

Core Course

BC 5B 11—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum Weightage : 30

Part A

This section consists of three bunches of four questions each.

Each carries a weightage of 1.

Answer all questions.

I. Choose the correct answer from the following :—

1 Which of the following is not a current asset ?

- (a) Stock. (b) Bills Receivable.
(c) Debtors. (d) Goodwill.

2 Financial leverage occurs when :

- (a) A firm borrows funds. (b) A firm financing to the other.
(c) A firm merges with other. (d) None of these.

3 If the firm has fixed costs, it would have _____ leverage.

- (a) Operating leverage. (b) Financial leverage.
(c) Both (a) and (b). (d) None of these.

4 Which of the following method(s) may be used for judging profitability of a project ?

- (a) Payback method. (b) Return on investment method.
(c) Return on capital employed. (d) All of these.

II. Fill in the blanks with appropriate words :

5 _____ management can be defined as the management of flow of funds and it deals with the financial decision-making.

6 Working capital is also known as _____ capital.

7 According to _____ model, the dividend decision is irrelevant.

8 The simplest capital budgeting technique is _____.

Turn over

III. State whether the following statements True or False :

- 9 The investment, financing and dividend decisions are not related to the value of the firm.
- 10 Money has no time value.
- 11 Capital budgeting decisions are long decisions.
- 12 Total risk of a firm is determined by the combined effect of operating and financial leverage.

(12 × ¼ = 3 weight)

Part B

IV. Answer *all* the questions. Each question carries 1 weightage :

- 13 Define financial management.
- 14 Name any two constituents of current assets.
- 15 Give a short note on cost of holding inventories.
- 16 What is weighted average cost of capital ?
- 17 What is trading on equity ?
- 18 What is capital budgeting ?
- 19 What is dividend payout ratio ?
- 20 Name two forms of corporate securities.
- 21 What do you mean by operating leverage ?

(9 × 1 = 9 weight)

Part C

V. Answer any *five* questions. Each question carries 2 weightage.

- 22 What are the various kinds of working capital ?
- 23 Enumerate the assumptions of MM hypothesis of the irrelevance theory of dividend.
- 24 What is meant by capital structure ? Enumerate the factors determining the capital structure.
- 25 Explain briefly the relevance concept of dividend.
- 26 A company plans to issue 1,000 new shares of Rs. 100 each at par. The floatation costs are expected to be 5 % of the share price. The company pays a dividend of Rs. 10 per share initially and the growth in dividends is expected to be 5 %. Compute the cost of new issue equity shares.
- 27 Determine the payback period for a project which requires a cash outlay of Rs. 10,000 and generates cash inflows of Rs. 2,000, Rs. 4,000, Rs. 3,000 and Rs. 2,000 in the first, second, third and fourth year respectively.

- 28 A simplified income statement of Ahalya Ltd. is given below. Compute and interpret its degree of operating leverage.

Income statement of Ahalya Ltd. for the year ended 31st March 2013 :

	Rs.
Sales	... 10,50,000
Variable Cost	... 7,67,000
Fixed Cost	... 75,000
EBIT	... 2,08,000
Interest	... 1,10,000
Taxes (30%)	... 29,400
Net Income	... 68,600

(5 × 2 = 10 weightage)

Part D

Answer any **two** questions from the following. Each question carries 4 weightage :

- 29 A company is considering investment in a project that costs Rs. 2,00,000. The project has an expected life of 5 years and zero salvage value. The company uses straight line method of depreciation. The company's tax rate is 40 %. The estimated earnings before depreciation and before tax from the project are as follows :

Year	Earnings before depreciation and tax (Rs.)	Present value factor at 10 %
1 ...	70,000	0.909
2 ...	80,000	0.826
3 ...	1,20,000	0.751
4 ...	90,000	0.683
5 ...	60,000	0.621

You are required to calculate the net present value at 10 % and advise the company.

- 30 From the following details you are required to make an assessment of the average amount of working capital requirement of AB Ltd. :

Items	Average period of credit	Estimate for the first year (Rs.)
Purchase of material	... 6 weeks	26,00,000
Wages	... 1½ weeks	19,50,000
Overheads :		
Rent, rates etc.	... 6 months	1,00,000
Salaries	... 1 month	8,00,000
Other overheads	... 2 months	7,50,000
Sales (cash)	... —	2,00,000
Sales (credit)	... 2 months	60,00,000
Average amount of stock and work-in-progress	... —	4,00,000

It is assumed that all expenses and incomes were made at even rate for the year.

- 31 Define Financial Management. Discuss the scope and significance of Financial Management.

(2 × 4 = 8 weightage)