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Name.....

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Reg. No.....

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2015

(UG—CCSS)

Core Course

BC 5B 11—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 30 Weightage

Part A

Answer all **twelve** questions.
Each question carries $\frac{1}{4}$ weightage.

Choose the correct answer from the following :—

1. Requirements of working capital depends on :
 - (a) Size of the business.
 - (b) Credit policy adopted.
 - (c) Operating cycle involved.
 - (d) All the above.
 2. Discounting technique is used to :
 - (a) Find out future value of money.
 - (b) Find out present value of money.
 - (c) Find out present and future value.
 - (d) None of the above.
 3. Which of the following is not a motive for holding cash ?
 - (a) Transaction motive.
 - (b) Speculative motive.
 - (c) Saving motive.
 - (d) Precautionary motive.
 4. Operating leverage helps in analysis of :
 - (a) Business Risk.
 - (b) Financing Risk.
 - (c) Production Risk.
 - (d) Credit Risk.
- Fill up the blanks with appropriate words :
5. Capital investment decisions are generally of _____ nature.
 6. Working capital is also known as _____ capital.
 7. Capital gearing refers to the relationship between equity capital and _____.
 8. Financial leverage is also known as _____.

Turn over

Answer the following questions in a single word :

9. Mention another name for Compounding technique of time value of money.
10. The discount rate which equates the present value of cash inflows with the present value of outflows is known as :
11. What is the process of making investment decisions in capital expenditures ?
12. The EBIT level at which EPS remains the same irrespective of different alternatives of debt equity mix is known as :

(12 × ¼ = 3 weight)

Part B (Short Answer Type Questions)

Answer all questions.

13. What is Gross working capital ?
14. Name various methods of computing cost of equity capital.
15. What are the sources of short-term finance ?
16. What is time value of money ?
17. What is financial leverage ?
18. What is Scrip dividend ?
19. Define Cost of capital.
20. What is Capital Gearing ?
21. Explain Over capitalization ?

(9 × 1 = 9 weight)

Part C

Answer any five questions.

Each question carries 2 weightage.

22. What are the important motives for holding cash ?
23. Explain the significance of cost of capital.
24. Explain the types or kinds of working capital ?
25. Describe the theories of Net Income and Net Operating Income approach in Capital structure.
26. From the following information, calculate average collection period :

	Rs.
Total sales	... 1, 00,000
Cash sales	... 20,000
Sales return	... 7,000
Debtors at the end of year	... 11,000
Bills receivables	... 4,000
Creditors	... 15,000

7. A 5-year Rs. 100 debenture of a firm can be sold for a net price of Rs. 96.50. The coupon rate of interest is 14 % per annum, and the debenture will be redeemed at 5 % premium on maturity. The firm's tax rate is 40 %. Compute the before-tax and after-tax cost of debenture.
8. Calculate operating leverage, financial leverage and combined leverage from the following data

	Rs.
Sales (1,00,000 units)	= 2, 00,000
Variable cost per unit	= 0.70
Fixed cost	= 65,000
Interest charges	= 15,000

(5 × 2 = 10 weightage)

Part D*Answer any two questions.**Each question carries 4 weightage.*

9. ABC Ltd. sells its products on a gross profit of 20 % on sales. The following information is extracted from its annual accounts for the year ended 31st March 2012 :—

	Rs.
Sales (3 months credit)	... 40, 00,000
Raw materials	... 12, 00,000
Wages (15 days in arrears)	... 9, 60,000
Manufacturing expenses (one month in arrears)	... 12, 00,000
Administration expenses (one month in arrears)	... 4, 80,000
Sales promotion expenses (payable half yearly in advance)	... 2, 00,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of raw materials and one and a half months finished goods. Cash balance is maintained at Rs. 1,00,000 as a precautionary balance. Assuming a 10 % margin, find out the working capital requirements of ABC Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

Turn over

30. Calculate the average rate of return for projects A and B from the following :—

	Project A	Project B
Investments	Rs. 20, 000	Rs. 30, 000
Expected life (No salvage value)	4 years	5 years

Projected Net Income (after interest, depreciation and taxes)

Years	Project A (Rs.)	Project B (Rs.)
1	2,000	3,000
2	1,500	3,000
3	1,500	2,000
4	1,000	1,000
5	—	1,000
	<u>6,000</u>	<u>10,000</u>

If the required rate of return is 12 % which project should be undertaken ?

31. Explain the various factors which influence the Dividend decision of a firm ?

(2 × 4 = 8 weight)