19U685S (Pages: 3) Name: ……………………

Reg. No: …………………

SIXTH SEMESTER B.Com. DEGREE EXAMINATION, APRIL 2022

(CUCBCSS-UG)

CC17U BC6 B15 - FINANCIAL MANAGEMENT

(Commerce – Core Course)

(2017, 2018 Admissions – Supplementary/Improvement)

Time: Three Hours Maximum: 80 Marks

PART- A

Answer ***all*** questions. Each question carries 1 mark.

I. Fill in the blanks:

1. Cost of capital is the ________ required rate of return expected by investors.
2. An average of the cost of each source of funds employed by the firm for capital formation is known as ________
3. According to ________ model, the dividend decision is irrelevant.
4. The time gap between the production of goods and actual realization after sales is known as ________
5. Financial leverage is also known as ________

II. State whether the statements are true or false:

6. Investment decisions and capital budgeting are same.
7. Sunk cost is a relevant cost in capital budgeting.
8. Receivables management deals only with the collection of cash from the debtors.
9. The ultimate conclusions of NI approach and the NOI approach are same.
10. A long-term investor would more likely be interested in current yield than internal rate of return.

(10 × 1 = 10 Marks)

PART B

Answer any ***eight*** questions. Each question carries 2 marks.

11. What is Wealth Maximization?
12. Ram deposits Rs.500 at the end of every year, for 6 years at 6 per cent interest. Determine Ram's money value at end of 6 years.
13. What is lock box system?
14. What are the various kinds of working capital?

15. Navarathna Ltd. is considering to purchase a machine whose cost is Rs. 120000. Assuming the annual cash saving from using this machine is Rs.56000 before depreciation (24000) and tax rate 50%. Calculate cash inflow?
16. What are the important motives for holding cash?
17. How to determine the Measurement of Cost of Capital?
18. What is IRR?
19. A project cost Rs. 2000000 and yield annually a profit of Rs. 300000 after depreciation at 12 ½ % but before tax at 50%. Calculate payback period?
20. ABC Ltd. issues 5000, 8% debentures of Rs. 100 each at a discount of 10% and redeemable 10 years. The expenses of issues amounted to Rs.10000. Find out the cost of debt capital.

(8 × 2 = 16 Marks)

PART C

Answer any ***six*** questions. Each question carries 4 marks.

21. Define cost of capital. Discuss in detail the steps involved in computation of WACC.
22. What is capital structure? What are the factors affecting capital structure?
23. A Ltd. plans to issue 10000 new shares of Rs. 100 each at par. The floatation costs are expected to be 4% of the share price. The company pays a dividend of Rs. 12 per share initially and growth in dividend is expected to be 5%. Compute the cost of new issue of equity shares. If the current market price of an equity share is Rs. 120. Calculate the cost of existing equity share capital.
24. "Debt is the cheapest source of funds". Comment.
25. What are the different types of dividend?
26. Explain Net Operating Income (NOI) Approach?
27. A firm issues debentures of Rs.100000 and realizes Rs.98000 after allowing 2 % commission to brokers. The debentures carry an interest rate of 10 %. The debentures are due for maturity at the end of the 10 th year. Calculate cost of debt? If the tax rate is 55% what is the cost of debt after tax?
28. Find out the combined leverage with the help of given information of following Companies.

Particulars	**Company A**	**Company B**	**Company C**	**Company D**
Sales	200000	150200	450000	410000
Variable Cost	20000	-	50000	25600
Fixed Cost	10200	30000	10000	15000
Financial Leverage	1.32	1.13	1.10	1.20

(6 × 4 = 24 Marks)

PART D

Answer any ***two*** questions. Each question carries 15 marks.

29. Explain the various factors which influence the dividend decision of a firm. And also explain the irrelevance concepts of dividend decision.
30. Define the scope of financial management. What role should the financial manager play in the modern enterprises?
31. A firm wishes to raise Rs.1000000 for expansion. The firm has there alternative financial plans

    a) It can raise the entire amount in the form of equity capital.

    b) It can raise 50% equity capital and 50% as 5 % debentures.

    c) It can raise 75 % as equity capital and 25% as preference capital at 5%.

    Further assume that the expected EBIT is Rs.120000, the tax rate is 50 % and the issue price per equity share is Rs.20. Which financial plan should the firm select and why?

(2 × 15 = 30 Marks)

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