21U544 (Pages: 3) Name: ……………………….

Reg. No: …………………….

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2023

(CBCSS - UG)

(Regular/Supplementary/Improvement)

CC19U BCM5 B11 - FINANCIAL MANAGEMENT

(Commerce: Finance - Core Course)

(2019 Admission onwards)

Time: 2.5 Hours Maximum: 80 Marks

Credit: 4

Part A (Short answer questions)

Answer ***all*** questions. Each question carries 2 marks.

1. Define financial management.
2. What is time value of money?
3. What is financial structure?
4. What are the forms of Capital Structure?
5. State the characteristics of operating leverage.
6. What is cost of debt?
7. Maharatha Ltd. issue 9 % irredeemable preference shares of Rs.100 each at a premium of Rs.5 per share. The share issue expenses amount to Rs.3 per share. Compute cost of irredeemable preference shares.
8. What is Internal Rate of Return?
9. Define working capital.
10. What is operating cycle?
11. What is operating cycle concept of working capital?
12. What is Zero working Capital?
13. What do you mean by ordering cost?
14. Define dividend.
15. What is optimal dividend policy?

(Ceiling: 25 Marks)

Part B (Paragraph questions)

Answer ***all*** questions. Each question carries 5 marks.

16. Discuss the scope of financial management.
17. "Financial leverage is a double-edged sword" - Elucidate.

18. The shares of a company are selling at Rs.40 per share and it had paid a dividend of Rs.4 per share last year. The investor's market expects a growth rate of 5 percent per year
    a. Compute the company's cost of capital
    b. If the anticipated growth rate is 7 percent per annum, calculate the indicated market price per share?
19. Two Mutually exclusive investment proposals are being considered. The following information is available:

    Initial investment cost of the project A and B is Rs.10000.

	Project A		Project B	
Year	**Cash inflows**	**Probability**	**Cash inflows**	**Probability**
1	10000	0.2	12000	0.2
2	18000	0.6	16000	0.6
3	8000	0.2	14000	0.2

    Assuming cost of capital at 10%, advice the selection of the project.
20. X ltd has budgeted its sales to be Rs 700000 per annum. Its cost as a percentage are as follows

    Raw materials 20%

    Direct Wages 35%

    Overheads 15%

    Raw material are carried in stock for two weeks and finished goods are held in stock before sale for 3 weeks, X Ltd takes four weeks credit from suppliers and eight week credit to its customers. Factory processing will take 4 weeks. If both overhead and production are incurred evenly throughout the year, what is X Ltd total working capital requirements?
21. What do you mean by Management of Cash? Give the objectives.
22. From the following information, ascertain whether the firm is following an optimal dividend policy as per Walter's Model.

    Total Earning – Rs.200000

    No. of Equity Shares-20000 shares of Rs.100 each

    Dividend paid – Rs, 100000

    P/E Ratio-10

    Return on Investment-15%
23. The EPS of the company is Rs. 15. The market rate of discount applicable to the company is 12%. The dividends are expected to grow at 10% annually. The company retains 70% of its earnings. Calculate the market value of the share using Gordon's model.

(Ceiling: 35 Marks)

Part C (Essay questions)

Answer any ***two*** questions. Each question carries 10 marks.

24. What is financial management? Explain the objectives of financial management.
25. A manufacturing company is expecting the Net Operating Income of is Rs. 200000. The company has debenture lending of Rs 600000 at 10% interest payable. The overall capitalization rate is 20%. Calculate the value of the firm and the equity capitalization rate as per the NOI approach. What will be the impact on value of the firm and equity capitalization firm if the debenture amount is increased to Rs. 750000?
26. A choice is to be made between two competing projects which require an equal investment of Rs. 50000 and are expecting to generate net cash flows as under

Year	Project 1	Project 2
1	25000	10000
2	15000	12000
3	10000	18000
4	-	25000
5	12000	8000
6	6000	4000

    The cost pf capital of the company is 10 percent. Evaluate the project proposals under (a) Pay back method (b) Discounted cash flow method (NPV)? Which project proposal should be chosen and why?
27. ABC ltd has a capital of Rs. 10, 00,000 in equity shares of Rs. 100 each. The company proposes to pay dividend of Rs. 10 per share at the end of the year. The capitalisation rate is 12%. What will be the market price of the share at the end of year if (a) Dividend is declared (b) Dividend is not declared? Assuming that the company pays the dividend and has net profit of Rs. 5, 00,000 and makes new investment of Rs. 10, 00,000. How many new shares are to be issued using MM model?

(2 × 10 = 20 Marks)

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