15U576 (Pages:3) Name: ………………………

Reg. No……………………..

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, OCTOBER 2017

(CUCBCSS-UG)

CC15UBC5 B11-FINANCIAL MANAGEMENT

(Core Course)

(2015 Admission Regular)

Time: Three Hours **Maximum: 80 Marks**

PART I

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

A Choose the correct answer from the choices:

1 The par value of stocks and bonds outstanding is termed as:

a) Capital budgeting b) Capital rationing

c) Stock taking d) Capitalization

2 Ratio of net income to number equity shares is known as:

a) Net profit ratio b) Current Ratio

c) Earnings per Share d) Dividend per Share

3 Which policy should company follow during inflation or boom period

a) High gear b) Low gear

c) Moderate gear d) High and low gear

4 Which is the ratio of the present value of a project's future net cash flows to the projects initial cash outflow?

a) Profitability index b) ARR

c) IRR d) NPV

5 Net working capital is:

a) Total current assets b) Total assets

c) Excess current assets over current liabilities d) None of the above

Fill in the blanks

6 Dividend is paid to shareholder out of…………

7 The use of fixed financing costs by the firm is…………

8 …………refers to a situation where a firm is not in a position to invest in all profitable projects due to constraints on availability of funds.

9 ………..approach support that dividend decisions are relevant and affect the value of a firm.

10 …………means reducing the par value of shares by increasing the number of shares proportionately. **(10 x1 = 10 Mark)**

Turn Over

Part II

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

11. What is risk? How can risk of an asset be calculated?
12. What is 'Scrip dividend'?
13. Give three main purpose of holding cash?
14. What is capital rationing?
15. Define Discount Rate?
16. What is Global Depository Receipts?
17. How is the cost of Zero coupon bonds determined?
18. Write a note on capital budgeting process?
19. Which is a safer mode of raising funds- Bonds or Preference Capital? Why?
20. Differentiate between 'Financial Structure' and 'Capital Structure'?

(8 x 2 = 16 Marks)

Part III

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

21. What is the importance of working capital in business?
22. What are the objectives of financial management?
23. Briefly explain the methods of Capital Budgeting?
24. Calculate Operating Leverage From the following information

Installed capacity	1000 units
Operating capacity	800 units
Selling price per unit	Rs.10
Variable cost per unit	Rs.7
Fixed cost	Rs. 800

25. What is the relative distance of upper control limit and lower control limit from the return point as per Miller Orr model?
26. Distinguish between operating leverage and financial leverage?
27. Explain the Net income Approach to Capital structure Planning?
28. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs1,00,000 5% debentures in its financing. Both the firms have earnings before interest and tax of Rs.25,000 and the equity capitalization rate is 10%. Assuming the corporate tax of 50% calculate the value of the firm using MM approach?

(6 x 4 = 24 Marks)

Part IV

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

29. Compare Walter's Model with Gordon's Model and explains their rationality in dividend decisions.
30. Compute the market value of the firm, value of shares and the average cost of capital from the following information:

Net Operating Income	Rs. 2,00,000
Total Investment	Rs. 10,00,000
Equity Capitalisation Rate:	
a) If firm uses no debt	10%
b) If firm uses Rs.4,00,000 debentures	11%
c) If firm uses Rs.6,00,000 debentures	13%

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

31. XY Limited sells goods on a gross profit of 25%. Depreciation is taken into account as a part of cost of production. The following are the annual figures given to you:

Sales (two months credit)	-	18,00,000
Material Consumed(one month credit)	-	4,50,000
Wages (one month lag in payment)	-	3,60,000
Cash manufacturing expenses(one month lag in payment)	-	4,80,000
Administration expense(one month lag in payment)	-	1,20,000
Sales promotion expenses(paid quarterly in advance)	-	60,000
Income- tax payable in 4 installments of which one lies in next year	-	1,50,000

The company keeps one month's stock each of each raw material and finished goods. It also keeps Rs.1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis assuming 15% safety margin. Ignore work-in-progress.

(2 x 15 = 30 Marks)