SIXTH SEMESTER B.Com. DEGREE EXAMINATION, APRIL 2020

(CUCBCSS-UG)

CC17U BC6 B15 - FINANCIAL MANAGEMENT

Commerce – Core Course

(2017 Admission - Regular)

Time: Three Hours   Maximum: 80 Marks

Part A

Answer all questions. Each question carries 1 mark.

I. Fill in the blanks

1. The goal of financial management is ....

2. Traditional approach confines finance function only to ....

3. ABC analysis is used in .... management.

4. According to MM Model, dividend decision is ....

5. 'Bird in hand' argument is given by ....

II. State whether the statements are true or false.

6. Payback period method asses the profitability of a project.

7. Profitability and liquidity are inversely related.

8. Gross working capital means amount invested in all assets of a firm.

9. Under NOI approach, the capital structure decision is irrelevant.

10. Preference share is an ownership security.

(10 x 1 = 10 Marks)

Part B

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

11. Define financial management.

12. What is capital structure?

13. Explain operating cycle.

14. What do you mean by watered capital?

15. Describe NPV.

16. Explain risk adjusted discount rate.

17. How do you calculate cost of preference shares?

18. What do you mean by capital gearing?

(1)   **Turn Over**

19. Describe scrip dividend.

20. Explain optimum capital structure.

(8 x 2 = 16 Marks)

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

21. What is finance function? What are its objectives?

22. Describe various stock levels.

23. Explain Net Income approach to Capital structure.

24. The annual demand for a product is 12000 units. The unit cost is ` 8 and the inventory carrying cost per unit per annum is 10% of the average inventory cost. The cost of procurement is ` 120. Determine:

    a) EOQ

    b) Number of order per annum

    c) Time between two consecutive orders.

25. The shares of Alpha Ltd. are selling at ` 100 per share and this company had paid a dividend of ` 10/ share last year. The investors expect a growth rate of 5% per year. Calculate cost of equity capital. If the expected growth rate is 8% per annum, calculate market price per share.

26. Calculate financial leverage and operating leverage from the following data:

    A Company has issued 2000, 10% debentures of ` 100 each. Selling price of its product is ` 200 per unit. Output produced and sold: 1000 units per annum. Fixed operating costs: ` 60,000. Variable cost: 50% of sales.

27. An investment proposal requires ` 200000. Expected net cash inflows are ` 50000 for eight years. Calculate discounted payback period. Cost of capital of the company is 10%.

28. " The profit maximization approach is not operationally feasible". Discuss.

(6 x 4 = 24 Marks)

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

29. Efficient cash management will aim at expediting cash inflows and slowing cash outflows". Discuss.

30. Management of a company has asked you to analyse two proposed capital investment projects using NPV method and ARR method. Each project costs ` 1000000 with no scrap value at the end. Investor's required rate of return is 12%.

(2)

The annual net cash inflow are:

Year	Project A (`)	Project B (`)
1.	700000	350000
2.	300000	350000
3.	250000	350000
4.	100000	350000
5.	100000	350000

31. The following information are supplied you in respect of Prayan Ltd:

    Equity capitalisation rate: 10%

    Earnings per share: ` 12

    Assumed rate of return on investment

    a) 16%

    b) 8%

    c) 10%

    Show the effect of dividend policy on market price of a shares using Walter's model at the following payout ratio: a) 0%,   b) 50%,   c) 75%   d) 100%.

(2 x 15 = 30 Marks)

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(3)