19U545 (Pages: 3) Name: ……………………….

Reg. No……………………

FIFTH SEMESTER B.Com. PROFESSIONAL DEGREE EXAMINATION, NOVEMBER 2021

(CUCBCSS-UG)

(Regular/Supplementary/Improvement)

CC17U BCP5 B20 - FINANCIAL MANAGEMENT

(B.Com. Professional - Core Course)

(2017 Admission onwards)

Time: Three Hours Maximum: 80 Marks

Part A

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

I. Choose the correct answer.

1. The appropriate objective of an enterprise is;

   (a) Maximization of sale (b) Maximization of owner's wealth

   (c) Maximization of profits (d) None of these

2. Risk can be controlled in capital budgeting situations by assuming:

   (a) Higher ARR (b) Shorter pay back (c) Larger NPV (d) None of these.

3. Capital structure is optimal when:

   (a) WACC tends to decline (b) WACC is the lowest

   (c) Cash is sufficient to meet debt (d) None of these

4. Among the following which one is innovative source of financing

   (a) Hire Purchase financing (b) Lease financing

   (c) Seed Capital (d) All of these

5. Working Capital Turnover measures the relationship of Working Capital with:

   (a) Fixed Assets (b) Sales (c) Purchases (d) Stock.

II. Fill in the blanks:

6. According to ----------- theory, the dividend decision is irrelevant.
7. If there is no inflation during a period, then the money cash flow would be equal to -----
8. The capital structure which maximizes the value of firm is called -----------
9. ----------- is the minimum rate of return expected by its investors
10. Two mutually exclusive projects with different economic lives can be compared on the basis of -----------

(10 × 1 = 10 Marks)

Part B

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

11. Define Capital structure.
12. What is scrip dividend?
13. What is project appraisal?
14. What is IRR?
15. What is an annuity?
16. What is retention ratio?
17. What is combined leverage?
18. What is time value of money?
19. What is systematic risk?
20. Explain the concept “trading on equity”?

(8 × 2 = 16 Marks)

Part C

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

21. Discuss the scope of cash management.
22. Explain risk return relationship in the context of financial decision making?
23. Explain Walter’s theory of dividend. What are its assumptions?
24. Explain the objectives of Financial Management.
25. A company plans to issue 1,000 new shares of Rs. 100 each at par. The floatation cost are expected to be 5% of the share price. The company pays a dividend of Rs.10 per share initially and the 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. 150, Calculate the cost of existing equity share capital.
26. A firm has sales of Rs. 10,00,000, variable cost Rs. 7,00,000 and fixed cost Rs.2,00,000 and debt of Rs. 5,00,000 at 10% rate of interest. What are the operating, financial and combined leverage?
27. Project X initially costs Rs. 25000.It generates the following cash inflows:

Year	Cash flows	P.V of Rs.1 @10%
1	9000	0.909
2	8000	0.826
3	7000	0.751
4	6000	0.683
5	5000	0.621

Taking the cut off rate as 10%, suggest whether the project should be accepted or not?

28. The following information is available for Asad Corporation: EPS- Rs.4.00, Rate of return on investments – 18%, Rate of return required by shareholder – 15%. What will be the price per share as per Walter’s model if payout ratio is 40% and 50%?

(6 × 4 = 24 Marks)

Part D

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

29. What is working capital? Explain the determinants of working capital.
30. The following figures relates to two companies

	A Ltd. (Rs. Lakhs)	B Ltd. (Rs. Lakhs)
Sales	500	1000
(-) Variable cost	200	300
Contribution	300	700
(-) Fixed cost	150	400
	150	300
(-) Interest	50	100
Profit before tax	100	200

You are required to:

(i) Calculate the operating, financial and combined leverage of both companies.

(ii) Comment on their relevant risk position.

31. The following is the capital structure of XYZ Ltd.

	(Rs. Crores)
Equity share capital (1 crore shares of Rs.10 @ issued par)	10
Preference share capital, 11% (1,00,000 shares of Rs. 100 @ issued par)	1
Retained earnings	12
Debentures, 13.5% (5,00,000 debentures of Rs.100 @ issued par)	5
Term loan, 12%	8

The next expected dividend per share is Rs.1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 20. Preference share, redeemable after 10 years is currently selling for Rs. 75 per share. Debentures redeemable after 6 years are selling for Rs. 80 per debenture. The tax rate for the company is 50 %.

Calculate the weighted average cost of capital using book value proportion.

(2 × 15 = 30 Marks)

****