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Name:

Reg. No.....

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2018

(CUCBCSS-UG)

CC15U BC5 B11 / CC16U BC5 B11 - FINANCIAL MANAGEMENT

(Commerce - Core Course)

(2015 Admission onwards)

Time: Three Hours

Maximum: 80 Marks

Part -I

Answer *all* questions. Each question carries 1 mark

A. Choose the correct answer:

1. Profit maximization is a:

A) Short term concept

B) long term concept

C) both

D) none of the above

2. The interest paid on the principle for a fixed period of time at a fixed rate of interest is called:

A) Simple Interest

B) Compound Interest

C) Present Value

D) Future Value

3. The discount rate must be determined in advance for the:

A) Payback Period

B) Time Adjusted Rate of Return Method

C) IRR

D) NPV Method

4. Stable dividend means:

A) Constant dividend per share

B) Constant dividend pay-out ratio

C) Both of the above

D) None of these

5. A capital investment is one that:

A) Has the prospect of long-term benefits.

B) Has the prospect of short-term benefits.

C) Only undertaken by large corporations

D) Applies to investment in fixed assets.

B. Fill in the blanks:

6. ----- of a firm refers to the composition of its long-term funds and its capital structure.

7. Maximization of ----- is the main goal of financial management.

8. Cost of Capital is the ----- rate of return expected by its investors.

9. ----- is the additional cost incurred to obtain additional funds required by a firm.

10. In ----- approach, the capital structure decision is relevant to the valuation of the firm.

(10 x 1= 10 Marks)

(1)

Turn Over

Part II

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

11. What is pay-back period?
12. What are zero coupon bonds?
13. What is stock Dividend?
14. What is meant by theory of relevance?
15. What is Operating Cycle?
16. What is trading on equity?
17. Differentiate between Gross Working Capital and Net Working Capital.
18. What is weighted average cost of capital?
19. What is Terminal Value?
20. What is financial Leverage?

(8 x 2= 16 Marks)

Part III

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

21. "Financial leverage is a double edged sword"- Elucidate.
22. Compare NPV method with the IRR method.
23. Write a brief note on CAPM.
24. Explain the Gordon's Theory of Dividend.
25. "Working Capital must be adequate but at the same time not excessive". Comment.
26. Distinguish between capitalisation and capital structure.
27. A Paper company as the following specific cost of capital along with the indicated book and market value weights.

Type of Capital	Cost (%)	Book Value weights (%)	Market Value weights (%)
Long term debt	5	30	25
Preference shares	10	20	17
Equity shares	12	40	46
Retained Earnings	12	10	12
		<u>100</u>	<u>100</u>

- 1) Calculate the weighted average cost of capital using book value and market value weights.
 - 2) Which of them do you consider better and why?
28. The shares of ABC Ltd are selling at Rs.100 per share and the company had paid a dividend of Rs.10 per share last year. The investors expect a growth rate of 10% per year.
- (a) Calculate the equity cost of capital.
 - (b) If the expected growth rate is 5% p.a., calculate the market price per share.

(6 x 4= 24 Marks)

Part IV

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

29. Examine critically the different concepts regarding dividend policy.

(2)

30. The ABC Company is considering the purchase of a new machine. Two alternative machines have been suggested each costing Rs. 400000. Earnings after taxation expected to be as follows:

Year	Cash flow of Machine A (Rs.)	Cash flow of Machine B (Rs.)
1	40000	120000
2	120000	160000
3	160000	200000
4	240000	120000
5	160000	80000

The company has a target of return of capital of 10% and on this basis you are required to compare the profitability of two machines and state which alternative you consider financially preferable.

(Note: The present value of Rs.1 @ 10% due in first to fifth years are 0.91, 0.83, 0.75, 0.68 and 0.62 respectively.)

31. The cost sheet of XYZ Ltd provides the following particulars.

Elements of Cost	Amount per unit (Rs.)
Raw materials	70
Direct labour	30
Overheads	50
Total Cost	120
Profit	30
Selling Price	200

Following further particulars are available.

- Raw materials are in stock on an average for one month.
 - Materials are in process on an average for half a month.
 - Finished goods are in stock on an average for one month.
 - Credit allowed by supplier is one month.
 - Credit allowed to customer is 2 months.
 - Lag in payment of wages is 1.5 weeks.
 - Lag in payment of overhead expense is one month.
 - One fourth of the output is sold against cash.
 - Cash in hand and at bank is expected to be Rs. 25,000.
- Prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.
- You may assume that production is carried on evenly throughout the year, wages and Overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

(2 x 15= 30 Marks)

(3)