

18U537

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Name: .....

Reg. No.....

**FIFTH SEMESTER B.Com. PROFESSIONAL. DEGREE EXAMINATION, NOV. 2020**

(CUCBCSS-UG)

(Regular/Supplementary/Improvement)

**CC17U BCP5 B02 - FINANCIAL MANAGEMENT**

(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. To increase given present value, the discount rate should be adjusted:  
a) Upward                      b) Downward                      c) Static                      d) None of these
2. The long run objective of financial management is to:  
a) Maximize EPS.                      b) Maximize the net profits.  
c) Maximize return on investment.                      d) Maximize market value of its shares.
3. The variability of ..... caused by the financial leverage is called financial risk.  
a) Contribution                      b) EPS                      c) EBIT                      d) EBT
4. Net working capital means:  
a) Current asset + current liability                      b) Current asset – current liability  
c) Current assets only                      d) None of the above
5. The weighted average cost of capital is not similar to:  
a) Overall cost of capital                      b) Required rate of return  
c) Risk adjusted return                      d) Minimum rate of return

II. Fill in the blanks:

6. Greater the size of a business unit ..... will be the requirement of working capital.
7. .... dividend promises to pay the shareholders at a future date.
8. Operating leverage  $\times$  financial leverage = .....
9. Capital gearing refers to the relationship between equity capital and .....
10. Cost of retained earnings is the ..... cost of dividends forgone by the shareholders.

**(10  $\times$  1 = 10 Marks)**

**Part B**

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

11. What is weighted average cost of capital?
12. What is venture capital?
13. What is a systematic risk?

14. Why is maximizing wealth a better goal than maximizing profits?
15. What is capitalisation?
16. What do you mean by inventory turnover?
17. What do you understand by operating cycle concept of working capital?
18. What is the significance of stable dividends?
19. What is trading on equity?
20. What is annuity?

**(8 × 2 = 16 Marks)**

### Part C

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

21. What are the major types of financial management decisions that business firms take?
22. Explain capital budgeting process.
23. What are the assumptions on which Gordon model for the cost of equity is based?
24. Explain Walter's theory of dividend. What are its assumptions?
25. What are various methods of estimating working capital requirement?
26. Discuss the various techniques of efficient cash management.
27. The following information is available in respect of A Ltd:

Earnings per share      Rs. 10

Cost of capital            10%

Find out the market price of the shares under different rates of return,  $r$  of 8%, 10% and 15% for different payout ratios of 30%, 60% and 90%.

28. The working results of two machines are as follows:

	Machine I	Machine II
Cost	45,000	45,000
Sales per year	1,00,000	80,000
Cost per year	36,000	30,000
Expected life	2 years	3 years

Calculate Average Rate of Return. Which of the two should be preferred?

**(6 × 4 = 24 Marks)**

### Part D

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

29. Distinguish between operating leverage and financial leverage. Explain the effects of financial leverage on EPS and financial risk.
30. "IRR is a superior technique than the NPV method". Do you agree? Give brief critical view in support of your answer.
31. Define financial management. Discuss the objectives and scope of financial management.

**(2 × 15 = 30 Marks)**

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