

**19U540S**

(Pages: 3)

Name: .....

Reg. No: .....

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

(CUCBCSS-UG)

**CC16U BC5 B11 - FINANCIAL MANAGEMENT**

(Commerce – Core Course)

(2016 Admission - Supplementary)

Time: Three Hours

Maximum: 80 Marks

**PART- A**

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

Fill in the blanks

1. An average of the cost of each source of funds employed by the firm for capital formation is known as \_\_\_\_\_
2. Financial leverage is also known as \_\_\_\_\_
3. \_\_\_\_\_ is the additional cost incurred to obtain additional funds required by a firm.
4. According to MM, the dividend policy of a firm is \_\_\_\_\_
5. Gross operating cycle equal to inventory conversion period plus \_\_\_\_\_

State whether the statements are true or false.

6. Dividend decision involves legal as well as financial considerations.
7. Bird in hand argument shows that dividends are considered better than capital gain
8. Ageing schedule of receivables is one way or monitoring the receivables.
9. Receivables management deals only with the collection of cash from the debtors.
10. The ultimate conclusions of NI approach and the NOI approach are same.

**(10 × 1 = 10 Marks)**

**PART B**

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

11. What is Implicit Cost?
12. What is lock box system?
13. What are the various kinds of working capital?
14. Determine the payback period for a project which requires a cash outlay of Rs. 10000 and generates cash inflows of Rs. 2000, Rs. 4000, Rs. 3000 and Rs. 2000 in first, second, third and fourth year respectively
15. What is Realized Yield Method?

(1)

**Turn Over**

16. What are the important motives for holding cash?
17. How to determine the Measurement of Cost of Capital?
18. Discuss the main objectives of dividend policy.
19. Determine the payback period for a project which requires a cash outlay of Rs. 10000 and generates cash inflows of Rs. 2000, Rs. 4000, Rs. 3000 and Rs. 2000 in first, second, third and fourth year respectively.
20. Distinguish between operating leverage and financial leverage?

(8 × 2 = 16 Marks)

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

21. What is capital structure? What are the factors affecting capital structure?
22. The EPS of the company is Rs. 15. The market rate of discount applicable to the company is 12%. The dividends are expected to grow at 10% annually. The company retains 70% of its earnings. Calculate the market value of the share using Gordon's model.
23. X Corporation has estimated that for a new product its break-even point is 2000 units, if the item is sold for Rs.14 per unit. The cost account department has currently identified variable cost of Rs. 9 per unit. Calculate the degree of operating leverage for sales volume of 2500 units and 3000 units. What do you infer from the degree of operating leverage at the sales volume of 2500 units and 3000 units and their difference, if any?
24. A company has a sales of Rs. 2000000, variable cost of Rs. 1400000. Fixed cost of Rs. 400000 and debt of Rs. 1000000 at 12% rate of interest. What are the Operating and Financial and Combined Leverages?
25. ABC Ltd. issues 5,000, 8% debentures of Rs. 100 each at a discount of 10% and redeemable 10 years. The expenses of issues amounted to ₹ 10,000. Find out the cost of debt capital?
26. A firm's  $K_e$  (return available to shareholders) is 12%, the average tax rate of shareholders is 50% and it is expected that 2% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings?
27. Ruchi Soya Ltd. is an established company having its shares quoted in the stock market. The company has distributed dividend at 20% p.a. The paid-up capital of the company was Rs.50 lakh shares of Rs,10 each. Annual growth rate in dividend expected is 3%. The expected rate of return on its equity capital is 15%. Calculate the value of shares of Ruchi Soya Ltd. based on Gordon's dividend growth model.

(2)

28. Suri Ltd. is selling its product at R. 2 per unit. The variable cost of manufacturing has been estimated at 75%. While the fixed cost at present sales level of Rs. 100000 unit comes to Rs. 25000. The company has issued 10% debenture of Rs. 26000. Find out Operating, Financial and Combined leverage for the firm. Also find out percentage increase in sales if company wants to double its EPS.

(6 × 4 = 24 Marks)

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

29. Explain the various factors which influence the dividend decision of a firm. And also explain the irrelevance concepts of dividend decision.
30. Ram Company belongs to a risk class for which the appropriate capitalization rate is 12%. It currently has outstanding 30000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 6 per share at the end of the current financial year. The company expects to have a net income of Rs. 300000 and a proposal for making new investments of Rs. 600000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. How many new shares issued and what is the market value at the end of the year?
31. Should the goal of financial decision-making be profit maximization or wealth maximization? Discuss.

(2 × 15 = 30 Marks)

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(3)