CF
COMMERCE FACTORY

Name......................................

Reg. No...............................

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2013

(UG-CCSS)

Commerce

BC 5B 11—FINANCIAL MANAGEMENT

(Common with B.Com. 2009 and 2010 admissions)

Time : Three Hours

Maximum : 30 Weightage

Part A

This part consists of three bunches of four questions each.
Each question carries a weightage of 1.
Answer all questions.

I. Choose the correct answer from the following :—

1 Working capital is the difference between current assets and ————.

   (a) Fixed assets.   (b) Tangible assets.

   (c) Current liabilities.   (d) Goodwill.

2 Dividend is the share of profits of a company divided among its :

   (a) Shareholders.   (b) Debenture holders.

   (c) Workers.   (d) None of these.

3 The capital expenditure decisions are for long period and they require ———— in different projects.

   (a) Large investment.   (b) Minimum investment.

   (c) Optimum investment.   (d) None of these.

4 The period in which we get the invested amount back is called ————.

   (a) Payback period.

   (b) Post payback period.

   (c) Average rate of return technique.

   (d) Profitability index technique.

II. Fill in the blanks with appropriate words :

5 Cost of capital is the ———— rate of return expected by the investors.

6 Greater the size of a business unit, ———— will be the requirements of working capital.

7 Bonus issue amounts to ———— in the amount of accumulated profits and reserves.

8 ———— ———— refers to the proportion of different sources of finance to total capitalization.

Turn over

III. State whether the following statements are True *or* False :

9 Profit maximization and wealth maximization are essentially the same thing.

10 Interest factor helps in incorporating the time value of money in financial analysis.

11 Cash flows and accounting profits are different.

12 Walter's model supports the view that dividend is relevant for value of the firm.

(12 × ¼ = 3 weightage)

Part B

IV. Answer *all* the questions. Each question carries 1 weightage :

13 What do you understand by dividend ?

14 What is trade credit ?

15 Define capital structure.

16 Write a short note on cost of retained earnings.

17 What is operating leverage ?

18 Name the *two* main theories of dividend.

19 What do you understand by retained earnings ?

20 Give a brief note on IRR.

21 Give any *two* assumptions of Miller and Modigliani's "dividend irrelevance theorem".

(9 × 1 = 9 weightage)

Part C

V. Answer any *five* questions. Each question carries 2 weightage :

22 Describe the significance of financial management.

23 What are the major steps involved in capital budgeting ?

24 What is cost of capital ? Explain the significance of cost of capital.

25 What are the factors determining capital structure ?

26 A project costs Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12 % per annum but before tax of 50 %. Calculate the payback period.

27 A project requires an investment of Rs. 5,00,000 and has a scrap value of Rs. 20,000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs. 20,000. Calculate the average rate of return on the investment.

28 PQR Ltd. issues Rs. 50,000, 8 % debentures at par. The tax rate applicable to the company is 50 %. Calculate the cost of debt capital.

(5 × 2 = 10 weightage)

Part D

VI. Answer any *two* questions from the following. Each question carries 4 weightage :

29   Jolly Co. Ltd. has an investment opportunity costing Rs. 1,00,000 with the following expected cash inflows (i.e., after tax and before depreciation).

Year	Net cash flows Rs.
1 ...	17,000
2 ...	17,000
3 ...	17,000
4 ...	17,000
5 ...	17,000
6 ...	18,000
7 ...	10,000
8 ...	15,000
9 ...	10,000
10 ...	14,000

Using 10 % as the cost of capital, determine the (i) Net Present Value ; and (ii) Profitability Index.

Note :

Year ...	1	2	3	4	5	6	7	8	9	10
Present value of Re. 1 at 10 % discount rate ...	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386

30   From the information given below, you are required to compute (i) Capitalisation ; (ii) Capital Structure ; and (iii) Financial Structure :

Liabilities	Rs.
Equity Share Capital ...	10,00,000
Preference Share Capital ...	5,00,000
Long-term Loan and Debentures ...	2,00,000
Retained Earnings ...	6,00,000
Capital Surplus ...	50,000
Current Liabilities ...	1,50,000
	25,00,000

31   What do you mean by capital budgeting ? Elucidate the need and significance of capital budgeting.

(2 × 4 = 8 weightage)