

**FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2017**

(CUCBCSS—UG)

BCM 5B 11—FINANCIAL MANAGEMENT

Maximum : 80 Marks

Time : Three Hours

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

(A) Choose the correct answer from the choices given :

1 Discounting technique is used to :

- (a) Find out future value of money.
- (b) Find out present value of money.
- (c) Find out both future and present value of money.
- (d) None of the above.

2 Which of the following is the short-term source of funds :

- (a) Trade Credit.
- (b) Share.
- (c) Debenture.
- (d) None of these.

3 The usual method of paying dividend is :

- (a) Scrip.
- (b) Property.
- (c) Cash.
- (d) Stock.

4 Requirements of working capital depends upon :

- (a) Size of the business.
- (b) Credit policy adopted.
- (c) Operating cycle involved.
- (d) All the above.

5 In which method the interest rate that equates the present value of expected future cash inflows to the cost of the investment outlay is considered :

- (a) Present Value Index.
- (b) NPV method.
- (c) Discounted cash inflow.
- (d) IRR method.

Turn over

(B) Fill in the blanks :

- 6 Net working capital is the excess of \_\_\_\_\_ over \_\_\_\_\_.
- 7 Cost of retained earnings is the \_\_\_\_\_ cost of dividends foregone by the equity shareholders.
- 8 Ploughing back of profits is an \_\_\_\_\_ source of capital.
- 9 Issue of bonus shares is a remedial measure for \_\_\_\_\_ capitalisation.
- 10 Shares having no face value are known as \_\_\_\_\_.

(10 × 1 = 10 marks)

### Part II

*Answer any eight questions.*

*Each question carries 2 marks.*

- 11 Distinguish between gross working capital and net working capital.
- 12 What is Scrip dividend ?
- 13 What is weighted average cost of capital ?
- 14 What do you mean by ARR ?
- 15 What is stable dividend policy ?
- 16 What are sweat equity shares ?
- 17 Distinguish between implicit cost and explicit cost.
- 18 What is meant by stock split ? When it is done ?
- 19 What is capital gearing ?
- 20 What do you mean by discounting technique ?

(8 × 2 = 16 marks)

### Part III

*Answer any six questions.*

*Each question carries 4 marks.*

- 21 What are the arguments in favour of wealth maximisation goal ?
- 22 Explain briefly ploughing back of profits. State its advantages.

- 23 A project costs Rs. 20,00,000 and yields a profit of Rs. 4,00,000 annually for 10 years. The profit is before depreciation and taxes. You are required to calculate the payback period assuming 50% tax rate and depreciation on straight line method.
- 24 Explain the limitations of financial leverage.
- 25 What are the different types of dividend policies ?
- 26 What are the advantages of issuing bonus shares ?
- 27 Explain the dangers of redundant working capital.
- 28 A company issues 10,000, 10% preference shares of Rs.100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued (a) at par, (b) at premium of 10%, and (c) at a discount of 5%.

(6 × 4 = 24 marks)

#### Part IV

Answer any two questions.

Each question carries 15 marks.

- 29 What is capital structure ? What are the factors affecting capital structure ?
- 30 The following figures relating to two companies :

	A Ltd (in lakhs)	B Ltd (in lakhs)
Sales	1,000	2,000
Variable costs	400	600
Contribution	600	1,400
Fixed costs	300	800
EBIT	300	600
Interest	100	200
Profit before tax	200	400

You are required to :

- (i) Calculate the operating leverage, financial and combined leverages for the two companies ; and
- (ii) Comment on the relative risk position of them.

Turn over

31 A project costs Rs. 1,00,000 with an estimated cash inflows of Rs. 30,000, Rs. 40,000, Rs. 40,000, Rs. 50,000 and Rs. 60,000. Calculate :

- (a) Simple payback period.
- (b) Payback reciprocal.
- (c) Discounted payback period.
- (d) Net Present Value.
- (e) Profitability Index.

Apply discount rate of 10%.

(2 × 15 = 30 marks)