

SIXTH SEMESTER B.Com./B.B.A. DEGREE EXAMINATION, MARCH 2020

(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION IV—FINANCIAL MANAGEMENT

(2017 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

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

A. Choose the correct answer :

✓ Permanent working capital should be financed by long term source according to _____ approach.

- (a) Hedging approach. (b) Matching approach.
(c) Conservative approach. (d) Both (a) and (b).

✓ The level of EBIT which is just equal to pay the total financial charges called :

- (a) Financial break-even point. (b) Point of indifference.
(c) Financial leverage. (d) None of these.

✓ _____ means the payment of a fixed percentage of net earnings as dividend every year.

- (a) Constant dividend per share.
(b) Constant payout ratio.
(c) Stable rupee dividend plus extra dividend.
(d) Both (a) and (b).

✓ _____ method does not measure the true profitability of the project.

- (a) ARR. (b) NPV.
(c) IRR. (d) Payback period.

✓ The primary goal of the financial management is _____.

- (a) To maximise the return.
(b) To minimise the risk.
(c) To maximise the wealth of owners.
(d) To maximise profit.

Turn over

B. Fill in the blanks :

- 6 Accept the proposal if the IRR is higher than or equal to _____.
- 7 Dividend paid in the form of some assets other than cash is _____.
- 8 Cost of retained earnings is the _____ cost of dividend foregone by the shareholders.
- 9 A firm will have favourable leverage if its _____ are more than the debt cost.
- 10 The process of making investment decision in capital expenditure is _____.

(10 × 1 = 10 marks)

Part B (Short Answer Questions)

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

11. Define financial management.
12. Explain the circular flow concept of working capital management.
13. Briefly explain the principles of working capital management policy.
14. What do you mean by operating leverage ?
15. Explain marginal cost of capital.
16. What do you mean by certainty equivalent method ?
17. Explain the term capital budgeting.
18. What do you mean by profitability index ?
19. What is optimal capital structure ?
20. Details of X Ltd. for the year 2017-2018, are given as under :

Cost of goods sold : Rs. 48,00,000.

Operating cycle : 60 days.

Minimum desired level of cash balance : Rs. 50,000.

You are required to calculate the expected working capital requirement by assuming 360 days in a year.

(8 × 2 = 16 marks)

Part C (Short Essay Questions)

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

21. Explain the objectives of financial management. *Pr. work, se. Satish*
22. What are the limitations of financial leverage ?

23. What are the advantages of adequate working capital requirement ?

24. Explain the relevance concept of dividend ?

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25. Two projects A and B with an initial investment of Rs. 65,125 each are under consideration the expected earnings after tax and depreciation are :

Year		A	B
1	...	5,375	13,375
2	...	7,375	11,375
3	...	9,375	7,375
4	...	11,375	7,375
5	...	13,375	5,375

Rank the project on the basis of payback period ?

26. A company has issued debentures having interest rate 14 %, flotation cost 15 % and face value 100. The company is in the tax bracket of 35 %. The debentures would be redeemed after 5 years at a discount of 5 %. Find the cost of debt ?

27. A firm has sales of Rs. 25,00,000, variable cost of Rs. 19,00,000 and fixed cost of Rs. 4,00,000 and debt of Rs. 10,00,000 at 10 % rate of interest. What are the operating, financial and combined leverage ?

28. Prepare an estimate of working capital requirement from the following information of a trading concern :

Project annual sales 1,00,000 units, Selling price Rs. 8 per unit, Percentage of net profit on sales 25 %, Average credit period allowed to customers 8 weeks, Average credit period allowed by suppliers 4 weeks, Average stock holding in terms of sales requirement 12 weeks and allow 10 % for contingencies.

(6 × 4 = 24 marks)

Part D (Essay Questions)

Answer any two questions.

Each question carries 15 marks.

29. What do you mean by working capital management ? Explain the factors determining the working capital requirements ?

Turn over

30. The following is the capital structure of XYZ Ltd. :

	...	(Rs. Crores)
Equity share capital (1 crore shares, Rs. 10 par)	...	10
Preference share capital, 11 % (1,00,000 shares, Rs. 100 par)	...	1
Retained earnings	...	12
Debentures, 13.5 % (5,00,000 debentures, Rs. 100 par)	...	5
Term loans, 12 %	...	8
		36

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at the rate of 7 %. The market price per share is Rs. 20. Preference stock, redeemable after 10 years is currently selling for Rs. 75 per share. Debentures, redeemable after 6 years are selling for Rs. 80 per debenture. The tax rate for the company is 50 %.

Calculate the weighted average cost of capital using book value proportions.

31. A company is considering an investment proposal to purchase a machine costing Rs. 2,50,000. The machine has a life expectancy of 5 years and salvage value of Rs. 20,000. The company's tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation from the machine are as follows :

Year	:	1	2	3	4	5
Cash flows before tax after depreciation :		60,000	70,000	90,000	1,00,000	1,30,000

Calculate : Net present value and Benefit cost ratio at 10 % discount rate.

Year	:	1	2	3	4	5
PV factor at 10 %	:	0.909	0.826	0.751	0.683	0.621

(2 × 15 = 30 marks)