



E. Sankaralingam

Avinashilingam Institute for Home Science and Higher Education for Women
(Deemed to be University Estd. u/s 3 of UGC Act 1956, Category 'A' by MHRD)
Re-accredited with 'A++' Grade by NAAC. Recognised by UGC Under Section 12B
Coimbatore - 641 043, Tamil Nadu, India

Continuous Internal Assessment Test II – October 2024
Semester V

Class : III UG
Major : B.Com / B.Com PA) / B.Com (CA) /B.Com Cor.Sec

Time: 2 hours
Maximum Marks: 60

21BCOC20/21BCPC21/21BCCC19 /21BCRC19 - Financial Management

- CO1: Understand the importance of the financial management and financial planning in business.
- CO2: Gain substantial knowledge on various forms and sources of capital.
- CO3: Acquire the knowledge on different methods of capital budgeting
- CO4: Insist the students to understand the importance of forecasting of working capital.
- CO5: Acquire knowledge on dividend policy and valuation of firms.

Part - A

Answer all the questions

6 x 1 = 6

1. The method takes into account the earnings expected from the investment over their whole life is known as

a) Pay Back Period	b) Rate of Return	CO3:K1
c) Net Present Value Method	d) Profitability Index	CO3:K2
2. Capital budgeting is a part of

a) Investment decision	b) working capital management	CO4:K2
c) Marketing management	d) Capital Structure	
3. Gross working capital is based on

a) Accrual concept	b) Money Measurement Concept	CO4:K3
c) Going concern concept	d) realization Concept	
4. Working capital ratio is

a) Working Capital/Sales	b) Working Capital/Total Assets	CO5:K2
c) Current Assets/Current Liabilities	d) Current Assets/Sale	
5. Interest is usually associated with

a) Accounts Receivable	b) Notes Receivable	CO5:K2
c) Doubtful Accounts	d) Bad Debts	
6. Dividend capitalization model was developed by

(a) MyroJ.Gorden	(b) James E. Walter	(c) Ezra Solomon	(d) Merton H. Miller
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Part B 3 x 6 = 18

Answer the following

Answer should not exceed 200 words or one page

CO3:K2

7. (a) The initial cash outlay of a project is Rs.50,000 and it generates cash inflows in four years. Appraise profitability of the proposed investment assuming 10 % rate of discount.

Year	Present Table Value (10%)	Cash Inflow (Rs.)
1	.909	20,000
2	.826	15,000
3	.751	25,000
4	.683	10,000

(OR)

- (b) From the following extracted from the books of a manufacturing company, compute the operating cycle in days: Period covered:365 days, Average period of credit allowed by suppliers: 16days

	Rs.
Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of Average stock maintained:	
Raw materials	3,20,000
Work-in-Progress	3,50,000
Finished goods	2,60,000

8. (a) The sales and working capital of Suvidha Ltd. For a period of 5 years are given as follows: CO4:K2

Year	Sales (Rs. In Lakhs)	Working Capital (Rs. In Lakhs)
2010-11	60	12
2011-12	80	15
2012-13	120	20
2013-14	130	21
2014-15	160	23

You are required to forecast the working capital requirements of the company for the year 2022 - 23 taking the estimated sales of Rs. 200 Lakhs.

(OR)

(b) The following information is available in respect of a firm: CO4:K3

Capitalisation rate = 10%, Earning per share = Rs. 50 Assumed rate of return on investment:

(i) 12%, (ii) 8%, (iii) 10%.

Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is (a) 0%, (b) 20%, (c) 40%. (pp.25.6)

9. (a) What are methods of estimating Working Capital Requirement? CO5:K2

(OR)

(b) Explain the theory of Relevance in Dividend Policy. CO5:K3

Part C 3 x 12 = 36

Answer the following

Answer should not exceed 700 words or four pages

10. (a) A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow after taxes and before depreciation. CO3:K3

Year	1	2	3	4	5	6	7	8	9	10
Net Cash Flow (Rs.)	7,000	7,000	7,000	7,000	7,000	8,000	10,000	15,000	10,000	4,000

Using 10% as the cost of capital, determine the following:

(a) Pay back period

(b) Net present value at 10% discount factor

(c) Profitability index at 10% discount factor

(d) Internal rate of return with the help of 10% and 15% discount factor.

Note: Discount Rate

Year	1	2	3	4	5	6	7	8	9	10
PV of Re1. @10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
PV of Re1. @15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327	0.284	0.247

(OR)

(b) X Ltd., is considering the purchase of a machine. Two machines are available, E and F. CO3:K4
The cost of each machine is Rs. 60,000. Each machine has an expected life of 5 years.

Net profits before tax (after depreciation) during the expected life of the machine are given below:

Year	1	2	3	4	5	Total
Machine E (Rs.)	15,000	20,000	25,000	15,000	10,000	85,000
Machine F (Rs.)	5,000	15,000	20,000	30,000	20,000	90,000

Following the method of return on investment ascertain which of the alternatives will be more profitable. The average rate of tax may be taken at 50%.

11. (a) ABC Ltd. Sell its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st March 2020: CO4:K3

Sales (3 months credit)	Rs. 40,00,000
Raw materials	12,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing expenses (one month in arrears)	12,00,000
Administration expenses (one month in arrears)	4,80,000
Sales promotion expenses (payable half yearly in advance)	2,00,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of raw materials and one and a half months finished goods. Cash balance is maintained at Rs. 1,00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of ABC Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

(OR)

(b) The following details you are required to make an assessment of the average amount of working capital requirement of AB Ltd. CO4:K4

Items	Average period of credit	Estimate for the First year(Rs.)
Purchase of material	6 weeks	26,00,000
Wages	1 1/2 weeks	1950000
Overheads:		
Rents,rates etc.	6 months	1,00,000
Salaries	1 months	8,00,000
Other overheads	2 months	7,50,000
Sales(cash)	-	2,00,000
Sales(credit)	2 months	60,00,000
Average amount of stock and working progress	-	4,00,000
Average amount of undrawn profit	-	3,00,000

It is assumed that all expenses and incomes were made at even rate for the year.

12 (a) Du preez Ltd. Gives you the following information:

CO5:K3

Earnings per share Rs.45

Cost of capital:18%

Return on investment 18%

Ascertain the market value per share using Gordon's Model, if the payout in a) 30%,b)60%,c)90%

(OR)

(b)The earnings per share of company are Rs.8 and the rate of capitalization applicable to the company is 10%. The company has before it an option of adoption a payout ratio of 25% or 50% or 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earning is (i) 15% (ii) 10% and (iii) 5%. CO5:K4

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