

**Avinashilingam Institute for Home Science and Higher Education for Women
(Deemed to be University) Coimbatore-641043**

**Master's Degree Examination November 2018
Semester-III**

Class: II PG

Max Time: 3hours

Major: Commerce/M.Com. C.A.

Max Marks: 60

17 MCOC15 / 17MCCC14 Financial Management

Part-A

10 X ½ = 5 Marks

Choose the correct answer.

- The primary goal of financial management is -----
 - to maximize the return
 - to minimize the risk
 - to maximize the wealth of owners
 - to maximize profit
- Arbitrage is the level processing technique introduced in -----
 - Net income approach
 - MM approach
 - Operating approach
 - Traditional approach
- A fixed rate of ----- is payable on Debentures.
 - dividend
 - commission
 - interest
 - brokerage
- The act of buying an asset without having to make full payment in the immediate future is known as -----
 - Hire purchase
 - Finance lease
 - Operating lease
 - Sale and lease back
- Financial analysts, working capital means the same thing as -----
 - total assets
 - fixed assets
 - current assets
 - current assets minus current liabilities
- All of the following influences capital budgeting cash flows EXCEPT
 - accelerated depreciation
 - salvage value
 - tax rate changes
 - method of project finance used
- The volume of sales is influenced by ----- of the firm.
 - finance policy
 - credit policy
 - profit policy
 - fund policy
- Factoring is a form of financing
 - payable
 - receivable
 - borrowing
 - debts
- Cash management is a broad term used for collecting and managing cash. Speculative motive of cash refers to -----
 - Holding the cash to utilize it in internal projects
 - Holding the cash for any future loss the company is expecting
 - Holding the cash to avail any future investment opportunity
 - Holding the cash to utilize it for international projects
- The dividend pay out ratio is equal to -----
 - the dividend yield plus the capital gains yield
 - dividend per share divided by earning per share
 - dividends per share divided by par value per share
 - dividend per share divided by current price per share

Part- B

5 X 4 = 20 Marks

Answer All Questions

Each answer should not exceed 200 Words or one page

11.a, What is Financial Management and explain its objectives

(Or)

11.b, Explain the organization of Finance Function

12.a, State the factors determining Long Term finance

(Or)

12.b, Sakthi limited issued 20,000 8% Debenture of Rs.100 each on 1st April 2009. The cost of issue was Rs 50,000. The company's tax rate is 35%. Determine the Cost of debentures (before as well as after tax) if they were issued at par.

13.a, What is Merger and Acquisitions and explain its benefits ?

(Or)

13.b, Explain the various methods used for Risk factor in Capital Budgeting decisions.

14.a, A manufacturer has to supply his customer 600 units of his product per year.

Storage is not allowed and the inventory carrying cost amounts to rupee 0.60 per unit a year. The set up costs per run is Rs. 80. Find out (a), Economic order quantity (b), The optimum number of orders per year (c), The optimum period of supply per optimum order. (Or)

14.b, List out the various aspects or dimensions of Receivable Management

15.a, From the following information, prepare a Cash Budget for June 2008.

Cash in hand on 01.06.2008 Rs. 20,000

Cash purchases for June 2008 Rs. 1,40,000

Cash sales for June 2008 Rs. 2,00,000

Office expenses for June 2008 Rs. 6,000

Interest payable June 2008 Rs. 2,000

Purchase of office furniture in June 2008 Rs. 5,000

(Or)

15.b, What are the factors that determine the Dividend Policy of a company?

Part- C

5 X 7 = 35 Marks

Answer All Questions

Each answer should not exceed 600 words or three pages

16. a, Explain the factors determining Capital Structure (Or)

16.b, Martin limited has the following capital structure:

25,000 Equity shares of Rs. 10 each Rs. 2,50,000

2,000 9% Preference share s of Rs. 100 each Rs 2,00,000

3,000 10% debenture of Rs. 100 each Rs. 3,00,000

The company's EBIT is Rs. 1,25,000. Calculate the Financial Leverage assuming that the companies in 40 tax bracket.

17.a, Discuss the merits and demerits of Venture Capital

(Or)

17.b, Following information is available with regards to the capital structure of Ramu limited:

	Amount Rs.	After tax cost of capital %
Debentures	12,00,000	5 %
Preference share capital	4,00,000	10 %
Equity share capital	8,00,000	15 %
Retained earnings	16,00,000	12 %

You are required to calculate Weighted Average Cost of Capital.

18.a, Project X requires an investment of Rs. 20,00,000 and yields profits after tax and depreciation as follows

Year	1	2	3	4	5
Profits after Tax and Depreciation (Rs)	1,00,000	1,50,000	2,50,000	2,60,000	1,60,000

At the end of 5th year, the plant can be sold for Rs. 1,60,000. You are required to calculate Accounting (or) Average Rate of Return (ARR).

(Or)

18.b, Roja limited is engaged in customer retailing. You are required to estimate its Working Capital requirements from the following data.

Projected annual sales Rs. 9,00,000

Percentage of Net profit to cost of sales 20%

Average credit allowed to debtors one month

Average credit allowed by creditors 2 months

Average stock carrying (in terms of sales requirements) 2½ months

Add 10 % to allow for contingencies.

19.a, A firm decides to liberalize credit standards to sell a group of customers with 10 % Risk of non-payment. The firm estimates that this course of action would result in an additional sales of Rs.4,00,000 : The variable cost of the additional units estimated to be about 65 % of the selling price. It is further anticipated that as a result of change in credit policy, collection cost will increase by 5 % of additional sales. Should the firm liberalize credit standards?

(Or)

19.b, What are credit terms? Explain the role of credit terms in a Credit Policy

20.a. The cost of capital and the rate of return on investment of Rajesh limited are 10% and 18 % respectively. The company has 5,00,000 Equity shares of Rs 10 each outstanding and earnings per share are Rs 20. Compute the market price per share and value of firm in the following situations. Use Walter Model and comment on the results.

(i) No Retention (ii) 40 % Retention (iii) 80 % Retention

(Or)

20.b, Discuss the principal motives of holding Cash