

**Avinashilingam Institute for Home Science and Higher Education for Women
Coimbatore – 641 043
Bachelor's Degree Examination – November 2017**

V Semester

Class : III UG

Time : 3 Hours

Major : Commerce / B. Com CA / B.Com PA

Max. Marks : 100

15BCOC19 / 15BCCC19 / 15BCPC19 Financial Management

Part – A

10 x 1 = 10

Choose the Correct Answer

1. The job of a finance manager is confined to -----
 - a. Raising of funds
 - b. Management of Cash
 - c. Maximisation of profits
 - d. Raising of funds and their effective utilisation
2. The objective of an enterprise is -----
 - a. Maximisation of sales
 - b. Maximisation of owner's wealth
 - c. Maximixation of profit
 - d. both a and c
3. Cost of capital is the ----- rate of return expected by its investors.
 - a. minimum
 - b. maximum
 - c. normal
 - d. none of the above
4. Financial leverage is also known as -----
 - a. Trading on equity
 - b. creditors equity
 - c. Owner's equity
 - d. Outsiders equity
5. The method takes into account the earnings expected from the investment ----- over their whole life is known as
 - a. Accounting Rate of return
 - b. NPV
 - c. IRR
 - d. Profitability Index
6. ----- is the relationship between present value of cash inflows and the present value of cash outflows.
 - a. IRR
 - b. ARR
 - c. NPV
 - d. Profitability Index
7. Net working capital =
 - a. Current Assets minus current liabilities
 - b. Current Assets plus current liabilities.
 - c. Current liabilities minus current assets
 - d. Current liabilities divided by current assets.
8. The minimum amount which is required to ensure effective utilization of fixed facilities and for maintaining the circulation of current assets is -----
 - a. permanent working capital
 - b. Temporary working capital
 - c. variable working capital
 - d. both a and c
9. The usual method of paying dividend is -----
 - a. scrip
 - b. cash
 - c. property
 - d. stock
10. The distribution of profits of a company among its shareholders is -----
 - a. equity profits
 - b. dividens
 - c. interest
 - d. preference dividend

Answer the following

Answer should not exceed 400 words or two pages

11.a. Explain the classification of financial decision.

(Or)

11.b. Write the scope of finance function.

12.a. Define cost of capital. Discuss the classification of cost.

(Or)

12.b. A company has sales of Rs.5,00,000, variable cost of Rs.3,00,000, Fixed cost of Rs.1,00,000 and long – term loans of Rs.4,00,000 at 10% rate of interest. Calculate the financial leverage.

13.a. Calculate the pay – back periods of the following period each requiring a cash outlay of Rs.1,00,000. Suggest which projects are acceptable if the standard Pay – back period is five years.

Cash inflows

Year	Project A	Project B	Project C
1	30,000	30,000	10,000
2	30,000	40,000	20,000
3	30,000	20,000	30,000
4	30,000	10,000	40,000
5	30,000	5,000	-

(Or)

13.b. 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.

14.a. Calculate the operating cycle of a company from the following information.

Rs.

Raw material consumption p.a.	84,200
Annual cost of production	1,42,500
Annual cost of goods sold	1,53,000
Annual sales	1,95,000

Average value of current assets maintained:

Raw material	12,400
Work – in – progress	7,200
Finished goods	12,200
Debtors	26,000

The company gets 30 days credit from its suppliers. All sales made by the firm are on credit only. You may take one year as equal to 365 days.

(Or)

14.b. Discuss various motives for holding cash.

15.a. A company is expected to pay a dividend of Rs.2 per equity share. The dividends are expected to grow at the rate of 10%. Find out the share price to day, if market capitalizes dividend at 30%.

(Or)

15.b. Write a note on buy back of shares.

Answer the following
Answer should not exceed 800 words or four pages

- 16.a. Explain the objectives of financial management.
(Or)
- 16.b. Discuss the functional areas of financial management.
- 17.a. Explain theories of capital structures.
(Or)
- 17.b. A Ltd. company has equity share capital of Rs.5,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.3,00,000 for expansion cum modernization plans. The company plans the following financing schemes.
- All common stock
 - One lakh in common stock and Rs. Two lakh in 10% debentures.
 - All debt at 10% p.a.
 - Rs. One lakh in common stock and Rs.two lakhs in preference capital with the rate of dividend at 8%.
- The company's expected earning before interest and tax are Rs.1,50,000
The corporate rate of tax is 50%.
- You are required to determine the Earnings per share in each plan and comment on the implication of financial leverage.
- 18.a. Explain briefly the methods of capital budgeting.
(Or)
- 18.b. A company proposing to expand its production can go either for an automatic machine costing Rs.2,24,000 with an estimated life of 8 years.

The annual sales & costs are estimated as follows:

	Automatic Machine (Rs.)	Ordinary Machine (Rs.)
Sales		
Costs	1,50,000	1,50,000
Material	50,000	50,000
Labour	12,000	60,000
variable overhead	24,000	20,000

Compute the comparative profitability under the pay – back method.

- 19.a. Describe the factors determining the working capital requirements.
(Or)
- 19.b. From the following details you are required to make an assessment of the Average amount of working capital requirements of AB Ltd.

Items	Average period of credit	Estimate for the first year(Rs)
Purchase of material	6 weeks	26,00,000
Wages	1 ½ weeks	19,50,000
Overheads:		
Rent, rate, etc	6 months	1,00,000
Salaries	1 month	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 & 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.

20.a. Explain various types of dividend policy.

(Or)

20.b. The details regarding three companies are given below:

X Ltd	Y Ltd	Z Ltd
$r = 12\%$	6%	8%
$k_e = 8\%$	8%	8%
$E = \text{Rs.}10$	Rs.10	Rs.10

Compute the value of an equity share of each of these companies applying Walter's equation when dividend pay – out ratio is
a. 0% b. 20% c. 60% and d. 100%
