



Maximum

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

Continuous Internal Assessment Test I – August 2024

SEMESTER V

Class : III B.Com / B.Com PA) / B.Com (CA) / B.Com CS Time: 2 hours
Major : Commerce Maximum Marks: 60

21BCOC20/21BCPC21/21BCCC19/- 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

- The appropriate objective of an enterprise is
a) Maximization of Sales
b) Maximization of profit
c) Maximization of owners wealth
d) Maximization of investment
CO1: K1
- The assumption of MM hypothesis of capital structure does not include
a) Capital markets are imperfect
b) Investors have homogenous expectation
c) All firms can be classified into homogenous risk classes
d) The dividend pay-out ratio is cent percent and there is no corporate tax
CO1: K3
- In order to calculate the weighted average cost of capital, weights may be based on
a) Market values b) Target values c) Book values d) any of the above values
CO2: K2
- Which combination of leverage is generally good for the firms
a) High operating leverage and high financial leverage
b) High operating leverage and low financial leverage
c) Low operating leverage and low financial leverage
d) High operating leverage and high financial leverage
CO2: K2
- A capital budgeting technique which does not require the computation of cost of capital for decision making purpose is
a) Net Present Value method
b) Internal Rate of Return method
c) Modified Internal Rate of Return method
d) Pay Back Period Method
CO3: K2
- ABC Ltd. market value of share is Rs. 20 and EPS is Rs. 5 then the P/E ratio will be
a) Rs. 3 per share b) Rs. 4 per share c) Rs. 5 per share d) Rs. 6 per share
CO3: K1

Part B

3 x 6 = 18

Answer ALL questions

Each answer should not exceed 400 words or two pages

- a) Explain the nature and scope of financial management.
(or)
b) Analyse the functions of a financial manager in a small-scale industry.
CO1: K2
CO1: K3
- a) Explain net income approach and net operating income approach in determining capital structure
(or)
b) A Company issues 5000, 12% debentures of Rs.100 each at a discount of 5%. The commission payable to underwriters and brokers is Rs.25,000. The debentures are redeemable after 5 years. Compute the after tax cost of debt assuming a tax rate of 50%.
CO2: K2
- a) A Ltd has equity share capital Rs.5,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.3,00,000 for expansion cum modernisation plans. The company plans the following financing schemes.
a) All common stock
b) Rs.1 lakh in common stock and Rs.2 lakhs in debt @ 10%
c) All debts @ 10 %
d) Rs.1 lakh in common stock and Rs.2 lakh in preference capital with the rate of dividend at 8%.
The company's expected earnings before interest and tax are Rs.1,50,000. The corporate tax is 50%. Determine the Earnings Per Share (EPS) in each plan and comment on the implications of financial leverage.
(or)
b) Calculate the pay back periods of the following projects each requiring a cash outlay of Rs.1,00,000. Suggest which projects are acceptable if the standard pay-back period is 5 years.
CO3: K3
CO3: K2

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	-

3 x 12 = 36

Part C

Answer ALL questions

Each answer should not exceed 800 words or four pages

10. a) Assuming wealth maximization to be the objective of the financial management. Show how the financing, investment and dividend decisions of a company can help to attain this objective. CO1: K3

(or)

b) Explain the objectives and steps involved in financial planning. CO1: K2

11. a) Compute the market value of the firm, value of shares and the average cost of capital from the following information.

	Rs.
Net Operating Income	2,00,000
Total Investment	10,00,000
Equity capitalization rate	
a) If the firm uses no debt	10%
b) If the firm uses Rs.4,00,000 debt	11%
c) If the firm uses Rs.6,00,000 debt	13%

Assume that Rs.4,00,000 debt can be raised at 5% rate of interest whereas Rs.6,00,000 debt can be raised at 6% rate of interest CO2: K2

(or)

b) Calculate the operating leverage, financial leverage and combined leverage from the following data under situation I and II and Financial Plan A and B.

Installed Capacity	1,000 units	
Actual Production and Sales	800 units	
Selling Price	Rs. 20 per unit	
Variable Cost	Rs. 15 per unit	
Fixed Cost		
Under Situation I	Rs.800	
Under Situation II	Rs.1,500	
Capital structure		
	Financial Plan	
	A (Rs.)	B (Rs.)
Equity	5,000	7,000
Debt	5,000	2,000

12. a) Briefly explain the importance and methods of capital budgeting. CO2: K3

(or)

b) From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%. CO3: K3

	Project X	Project Y
Initial Investment	Rs. 20,000	Rs.30,000
Estimated life	5 years	5 years
Scrap value	Rs. 1,000	Rs.2,000

The profits before depreciation and after taxes (cash flows) are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rs.	Rs.	Rs.	Rs.	Rs.
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

The present value factors at 15% and 17% p.a are as given below.

Year	1	2	3	4	5
P.V. of @ 10% discount factor	0.909	0.826	0.751	0.683	0.621

A | S
 Comm - 60 | 60
 PA - 65 | 63
 CA - 59 | 100
 CS - | 2.5

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