C 40003 **(Pages : 4)** **Name.......................................**

Reg. No...................................

SIXTH SEMESTER U.G. DEGREE EXAMINATION, MARCH 2023

(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION—IV : FINANCIAL MANAGEMENT

(2017—2018 Admissions)

Time : Three Hours Maximum : 80 Marks

Part A

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

(A) Choose the Correct Answer :

1 In finance, "working capital" means the same thing as ——————.

a) Total Asset. b) Fixed Asset.

c) Current Asset. d) Current Asset minus Current liabilities.

2 Which of the following are not among the daily activities of financial management ?

a) Sale of share and bonds.

b) Credit management.

c) Inventory Control.

d) The receipt and disbursement of funds.

3 Financial leverage refers to the rate of change in earnings per share for a given change in earnings

a) Before Tax. b) Before Interest.

c) Before Interest and Tax. d) After Interest and Tax.

4 Dividend Pay-out Ratio is:

a) PAT Capital. b) DPS $\div$ EPS.

c) Pref. Dividend $\div$ PAT. d) Pref. Dividend $\div$ Equity Dividend.

Turn over

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5 Capital Budgeting is a part of :

a) Investment Decision. b) Working Capital Management.

c) Marketing Management. d) Capital Structure.

(B) Fill in the blanks :

6 The Real Cashflows must be discounted to get the present value at a rate equal to —————————.

7 Cost of issuing new shares to the public is known as —————————.

8 Financial Leverage measures relationship between ————————— and —————————.

9 In MM-Model, irrelevance of capital structure is based on —————————.

10 ————————— Model found the similarities between inventory management and cash management.

(10 × 1 = 10 marks)

Part B (Short Answer Questions)

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

11 What is scrip dividend ?

12 What is trading on equity ?

13 Explain the term point of indifference.

14 Write a note on composite cost of capital.

15 Explain CAPM.

16 What are the objectives of finance function ?

17 What is a cash budget ?

18 What is receivable management ?

19 Details of X Ltd. For the year 2019-20 are given as under :

Cost of goods sold :	...	Rs. 48,00,000
Operating Cycle :	...	60 days
Minimum desired level of cash balance :	...	Rs. 75,000

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

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20 VS International is thinking of raising the funds by the issue of equity of shares to the public. The current market price of the firm share is Rs. 150. The firm is expected to pay a dividend of Rs. 3.9 next year. At present the firm can sell the new shares for Rs. 140 each and it involves a flotation cost Rs. 10. Calculate the cost of new issue ?

(8 × 2 = 16 marks)

Part C

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

21 Explain the scope of financial management.

22 Discuss the various factors affecting the capital structure.

23 Distinguish the operating leverage from financial leverage.

24 Explain Modigliani and Miller's Approach.

25 A firm's K_e (return available to shareholders) is 10 %, the average tax rate of shareholders is 50 % and it is expected that 2 % is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings ?

26 From the following data, calculate the Market value of a share of XYZ Ltd., under :

(1) Walter's formula ; and

(2) Dividend growth model.

EPS = Rs. 10 DPS = Rs. 6

Ke = 18 % r = 25 %

Retention ratio (b) = 45 %

27 Compute (1) Pay back period ; (2) Post pay back profitability ; and (3) Post pay back profitability index :

Initial outlay	...	Rs. 50,000
Annual Cash flow (After tax but before depreciation)	...	Rs. 10,000
Estimated life	...	8 years

Turn over

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28. A Company has the following capital structure :

Equity share capital	...	Rs. 1,00,000
10 % Prof. share capital	...	Rs. 1,00,000
8 % Debentures	...	Rs. 1,25,000
The present EBIT	...	Rs. 50,000

Calculate the financial leverage assuring that the company is in 50 % tax bracket.

(6 × 4 = 24 marks)

Part D

Answer any **two** *questions.*
Each question carries 15 *marks.*

29 Write a note on the concept of working capital and the factors determining the working capital requirements.

30 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 % :

	Project X	Project Y
Initial investment	20,000	30,000
Estimated life	5 years	5 years
Scrap value	1000	2000

The profit before depreciation and after taxes (cash flow) are as follows :

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	5000	10000	10000	3000	2000
Project Y	20000	10000	5000	3000	2000
PV factor at 10 %	.909	.826	.751	.683	.621

31. (a) A Ltd. issues Rs. 10,00,000, 8 % debentures at par. The tax rate applicable to the company is 50 %. Compute the cost of debt capital.

(b) B Ltd. issues Rs. 1,00,000, 8 % debentures at a premium of 10 %. The tax rate applicable to the company is 60 %. Compute the cost of debt capital.

(c) A Ltd. issues Rs. 1,00,000, 8 % debentures at a discount of 5 %. The tax rate is 60 %, compute the cost of debt capital.

(d) B Ltd. issues Rs. 10,00,000, 9 % debentures at a premium of 10 %. The costs of floatation are 2%. The tax rate applicable is 50%. Compute the cost of debt-capital.

In all cases, we have computed the after-tax cost of debt as the firm saves on account of tax by using debt as a source of finance.

(2 × 15 = 30 marks)

C 20017 **(Pages : 4)** **Name...**

Reg. No....................................

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(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION IV : FINANCIAL MANAGEMENT

(2017 and 2018 Admissions)

Time : Three Hours Maximum : 80 Marks

Part A

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

(A) Choose the Correct Answer :

1 The primary goal of the financial management is ————————.

a) To maximize the return.

b) To maximize the profit.

c) To maximize the wealth of the owners.

d) To minimize the risk.

2 The valuation of a financial asset is based on determining :

a) The present value of future cash flows.

b) The current yield to maturity on long term corporate bonds.

c) The capital budgeting process.

d) What the corporation is paying to attract preferred shareholders.

3 According to traditional approach, average cost of capital ————————.

a) Remains constant up to a degree of leverage and rises sharply thereafter with every increase in leverage.

b) Rises constantly with increase in leverage.

c) Decreases up to a certain point, remains unchanged for moderate increase in leverage and rises beyond a certain point.

d) Decreases at an increasing rate with increase in levarage.

4 Which of the following is the first step in capital budgeting process ?

a) Approval of the proposal. b) Screening the proposal.

c) Implementing the proposal. d) Identification of investment proposal.

Turn over

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5 The term ________________ refers to the period in which the project will generate the necessary cash flow to recoup the initial investment.

a) Internal return. b) Payback Period.

c) Discounting return. d) Accounting Return.

(B) Fill in the blanks :

6 A project costs Rs. 1,00,000 annual cash flow of Rs. 20,000 for 8 years. Its payback period is ________________ years.

7 ________________ is called as Dividend Ratio Method.

8 The mix of debt and equity in a firm is referred to as the firm's________________.

9 Net working capital refers to ________________.

10 Operating Leverage X Financial Leverage = ________________.

(10 × 1 = 10 marks)

Part B (Short Answer Questions)

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

11 What are the objectives of financial management ?

12 Define cost of capital.

13 Write any *two* advantages of leverage.

14 Define capital structure.

15 Define cash management.

16 What is the concept of "Time Value of Money" ?

17 Distinguish between systematic risk and unsystematic risk.

18 Calculate the NPV for a project which required an initial investment of Rs. 20,000 and which involves a net cash inflow of Rs. 6,000 each year for 6 years. Cost of funds is 8 percent. (Present value of Annuity of One Rupee at 8 percent discount factor for 6 years = 4.623).

19 A company purchases a component of a product at the rate of Rs. 50 per piece. The annual consumption of that component is 25,000 pieces, if the ordering cost is Rs. 230 per order and carrying cost is 20 percent per annum, what would be the EOQ ?

20 What is dividend payout ratio ?

(8 × 2 = 16 marks)

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Part C

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

21 Explain the different types of dividend.

22 What are the stages of capital budgeting process ?

23 Explain various inventory control techniques.

24 What are the assumptions of Walter's model ?

25 There are two projects A and B. Each involves an investment of Rs. 50,000. The expected cash inflows and the certainly co-efficient are as under :

Year	Project A		Project B	
	Cash inflows	Certainly Co-efficient	Cash inflows	Certainly Co-efficient
1	35,000	.8	25,000	.9
2	30,000	.7	35,000	.8
3	20,000	.9	20,000	.7

Risk-free cutoff rate is 10 %. Suggest which of the two projects should be preferred.

26 Simplified Income statement of Z Ltd. is given below. Calculate and interpret its degree of operating leverage, financial leverage and combined leverage :

Sales	...	10,50,000
Variable Cost	...	7,67,000
Fixed Cost	...	75,000
EBIT	...	2,08,000
Interest	...	1,10,000
Taxes (30%)	...	29,400
Net Income	...	68,600

27 ABC Ltd. issues 20,000, 8 % preference shares of Rs. 100 each. Redeemable after 8 years at a premium of 10 %. The cost of issue is Rs. 2 per share. Calculate the cost of preference share capital.

Turn over

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

Projected annual sales 10,000 units Selling price Rs. 10 per unit

Percentage of net profit on sales 20 %

Average credit period allowed to customers 8 Weeks

Average credit period allowed by suppliers 4 Weeks

Average stock holding in terms of sales requirements 12 Weeks

Allow 10 % for contingencies

(6 × 4 = 24 marks)

Part D

Answer any **two** *questions.*
Each question carries 15 *marks.*

29 Explain Finance Function, approaches to Finance Function and the relationship of Finance Function with other Business Function.

30 A company has on its books the following amounts and specific costs of each type of capital :

Type of Capital	Book Value	Market value	Specific Cost
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
Total	13,00,000	16,90,000	

Determine the weighted average cost of capital using :

(a) Book value weights, and

(b) Market value weights.

How are they different ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

31 The following information relates to XYZ Ltd:

Paid-up capital	...	Rs. 20,00,000
Earnings of the company	...	Rs. 2,00,000
Dividend paid	...	Rs. 1,60,000
Price earnings ratio	...	12.5
Number of shares outstanding	...	20,000

You are required to find out the whether the company's dividend pay out ratio is optimal using Walter's model.

(2 × 15 = 30 marks)

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C 1019 (Pages : 4) Name..............................

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SIXTH SEMESTER B.Com./B.B.A. DEGREE EXAMINATION
MARCH 2021

(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION—IV : FINANCIAL MANAGEMENT

(2017 Admissions)

Time : Three Hours Maximum : 80 Marks

Section A

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

A. Choose the correct answer :

1 The use of debt capital along with owners equity to maximise return is called :

(a) Capital budgeting. (b) Financial leverage.

(c) Trading on equity. (d) Both (b) and (c).

2 The ARR method is based on the :

(a) Cash inflow. (b) Cash outflow.

(c) Accounting profit. (d) All of these.

3 The discount rate which equates the present value of cash inflows with the present value of cash outflows :

(a) Implicit cost. (b) Explicit cost.

(c) Specific cost. (d) Historical cost.

4 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.

5 If net present value is positive then profitability index will be :

(a) Greater than one. (b) One.

(c) Less than one. (d) None of these.

Turn over

B. Fill in the blanks :

6 Profitability index is also known as ——— ratio.

7 The process of making investment decision in capital expenditure is ———.

8 During boom period in the share market, it would be advisable to issue ———.

9 ——— is the cost associated with particular component at capital structure.

10 Capital investment decisions are generally of ——— nature.

(10 × 1 = 10 marks)

Section B (Short Answer Questions)

Answer at least **five** *questions.*
Each question carries 4 marks.
All questions can be attended.
Overall Ceiling 20.

11 Define Financial Management.

12 What do you mean by hedging approach ?

13 Explain the limitations of payback period method.

14 Financial leverage is a double-edged weapon. Comment.

15 What do you mean by explicit cost ?

16 Explain time value of money.

17 Explain stock dividend.

18 Explain risk adjusted discount rate.

19 What do you mean by financial break-even point ?

20 Explain the term cost of capital.

(5 × 4 = 20 marks)

Section C (Short Essay Questions)

Answer at least **four** *questions.*
Each question carries 8 marks.
All questions can be attended.
Overall Ceiling 32.

21 Explain the methods of estimating working capital requirement.

22 Explain the method of accelerating cash inflows.

23 What are the limitations of capital budgeting ?

24 Explain the irrelevance concept of dividend ?

25 A company issue 10,000 10 % preference shares of Rs. 100 each redeemable after 10 years at premium of 5 %. The cost of issue is 2 per share. Calculate the cost of preference share capital ?

26 B Ltd. is planning to buy a machine costing Rs. 2,80,000 that has a salvage value of Rs. 20,000. The economic life of the machine is five years, during which it is expected to yield the following earnings, after tax.

Year	:	1	2	3	4	5
Profit	:	30,000	35,000	25,000	25,000	35,000

Apply ARR method, should the machine be purchased, if the existing rate of return of the company is 22 %.

27 A firm has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000 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 P Ltd. has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further capital of Rs. 3,00,000 for expansion. The company plans the following schemes :

(a) All common stock.

(b) Rs. 1,00,000 Equity shares and Rs. 2,00,000 in 10 % Debentures.

(c) Rs. 1,00,000 in equity shares and Rs. 2,00,000 in 8 % preference share capital.

The company's EBIT is Rs. 1,50,000 and corporate tax is 50 %. Determine EPS in each plan and comment on the best alternative.

(4 × 8 = 32 marks)

Section D (Essay Questions)

Answer any **one** *question.*
Each question carries 18 *marks.*

29 Define Financial Management ? Explain the scope and objectives of financial management.

30 ABC Ltd. has the following book value capital structure :

		(Rs. *million*)
Equity share capital (10 million shares, Rs. 10 par)	...	100
Preference share capital, 11 % (1,00,000 shares, Rs. 100 par)	...	10
Retained earnings	...	120
Debentures, 13.5 % (5,00,000 debentures, Rs. 100 par)	...	50
Term loans, 12 %	...	80
		360

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 R. Ltd. is planning to buy a machine for Rs. 9,00,000, the earnings from which before charging the depreciation and taxes for the next five years are given as :

Year	:	1	2	3	4	5
EBDT	:	3,00,000	3,50,000	3,60,000	4,10,000	4,30,000

The machine shall be depreciated on straight line method basis. The company pays corporate taxes @ 30 %.Using NPV method, advice whether to purchase this machine or not, given that the cost of capital is 12 %.

PV factor at 12 %	0.893	0.797	0.712	0.636	0.567

(1 × 18 = 18 marks)