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Name.....

Reg. No.....

**FIFTH SEMESTER (CBCSS—UG) DEGREE EXAMINATION  
NOVEMBER 2024**

B.Com.

BCM 5B 11—FINANCE SPECIALIZATION II—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Two Hours and a Half

Maximum : 80 Marks

**Part A***Answer all the questions (2 marks each, maximum 25 marks).*

1. What is wealth maximisation ?
2. Zero Coupon Bonds do not carry any interest. Do you agree ? If yes, how does it benefit the investors ?
3. Calculate the future value of Rs. 1,00,000 at the end of 3 year at 12 %.
4. X Ltd issued 10 % Rs. 10,00,000 12 % debentures of Rs. 100 each. Calculate the cost of debt if the issue is at par with 5 % floatation cost. The corporate tax rate is 40 %.
5. What is risk free rate ?
6. How does taxation affect cost of debt ?
7. From the following information, compute combined leverage. EBIT - Rs. 1,20,000, Contribution - Rs. 4,00,000 and Interest Rs. 10,000.
8. What do you mean by operating leverage ?
9. What is capital rationing ?
10. How do you calculate the cash inflow of a project, if profit before depreciation and taxes are given?
11. What do you mean by gross working capital ?
12. What is raw material conversion period ?

**Turn over**

13. What is RADR ?
14. The EPS of a company is Rs. 4 and it distributed Rs. 1.60 to its shareholders. Compute pay-out ratio and retention ratio.
15. What do you understand by credit policy ?

**Part B**

*Answer all the Questions (5 marks each, maximum 35 marks).*

16. Discuss the financing approaches to working capital management.
17. Explain the following terms.
  - (a) NPV.
  - (b) Payback period.
  - (c) Depreciation Tax Shield.
  - (d) Salvage.
  - (e) Unconventional Projects.
18. Distinguish between capital structure and financial structure. Explain it with the help of a Balance Sheet.
19. Explain the significance of financial leverage.
20. Calculate the level of EBIT at which the EPS indifference point between the following financing alternatives will occur.

Equity share capital of Rs. 6,00,000 and 12% Debentures of Rs. 4,00,000.

*Or*

Equity share capital of Rs. 4,00,000, preference share capital of Rs. 2,00,000 and 12% Debentures of Rs. 4,00,000. Preference dividend is 14%.

Assume the corporate tax rate is 35% and par value of equity share is Rs. 10 in each case.

21. The EPS of a company is Rs. 10. The shareholders expect a rate of return of 10%. The internal rate of return is 10%. Using Walter's model.
  - (a) What should be the optimum pay-out ratio ?
  - (b) What will be the market price, if the pay-out are : (i) 0% ; and (ii) 80%.

22. The following data is available.

Credit allowed by suppliers - 60 days, Credit period allowed by the firm - 120 days, Average collection period - 140 days, Average payment period - 70 days, Average age of inventory - 170 days, Assume 360 days a year.

Calculate cash cycle and cash turnover.

23. Explain the motives of holding inventories.

### Part C

*Answer any two questions from the following.*

*Each question carries 10 marks.*

24. Explain the objectives of financial management.

25. Discuss the dimensions of receivables management.

26. A Ltd is considering the replacement of an existing machine. Two options are available. The cash flows are given below.

Year	Cash Inflows		PV Factor @ 10 %
	Machine A (Rs.)	Machine B (Rs.)	
0	(25,00,000)	(40,00,000)	1.00
1	Nil	10,00,000	0.91
2	5,00,000	14,00,000	0.83
3	20,00,000	16,00,000	0.75
4	14,00,000	17,00,000	0.68
5	14,00,000	15,00,000	0.62

Find out NPV and PI.

Turn over

27. Assuming MM hypothesis, answer the following questions from the following data.

Number of equity shares—5,000

Capitalisation rate—20 %

Expected Dividend—Rs. 12

Current Market Price—Rs. 100

- (a) The firm has a net income of Rs. 1,00,000. Assuming that it pays dividend and makes investment of Rs. 2,00,000 ; how many new shares must be issued ?
- (b) What will be your answer, if dividends are not paid ?

(2 × 10 = 20 marks)

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(2019 Admission onwards)

Time : Two Hours and a Half

Maximum : 80 Marks

**Part A***Answer all the questions.**2 marks each, maximum 25 marks.*

1. The operating leverage of ABC Ltd is 2. Compute the percentage change in EBIT, if sales are expected to decline by 15 %.
2. What do you mean by financial break-even point ?
3. If the operating leverage of company is 1, it indicates that there is no fixed cost. Do you agree ? Why ?
4. Define the term capital budgeting.
5. How do calculate the initial outlay of a project ?
6. What do you mean by net working capital ?
7. What is cash cycle ?
8. What is cash dividend ?
9. The EPS of a company is Rs. 4 and it distributed Rs. 1.20 to its shareholders. Compute pay-out ratio and retention ratio.
10. X Ltd. issued 10 % Rs. 10,00,000 12 % debentures of Rs. 100 each. Calculate the cost of debt if the issue is at 10 % premium with 5 % floatation cost. The corporate tax rate is 40 %.
11. What is wealth maximisation ?
12. Zero Coupon Bonds do not carry any interest. Do you agree ? If yes, how does it benefit the investors ?

**Turn over**

13. Calculate the future value of Rs. 1,00,000 at the end of 3 year at 12 %.
14. What is risk free rate ?
15. What do you mean by Certainty Equivalents Method of project evaluation ?

**Part B**

*Answer all the questions.  
5 marks each / maximum 35 marks.*

16. Discuss the financing approaches to working capital management.
17. Explain the following terms.
  - (a) NPV.
  - (b) Payback period.
  - (c) Depreciation Tax Shield.
  - (d) Salvage.
  - (e) Unconventional Projects.
18. Distinguish between capital structure and financial structure. Explain it with the help of a Balance Sheet.
19. A company expects to pay a dividend of Rs. 30. The company plans to issue 1,00,000 equity shares of Rs 100. The floatation cost is Rs. 2. Assuming a brokerage of 2 % and personal income tax rate of 20 %, compute the cost of retained earnings.
20. A project costs Rs. 25,000 and has a scrap value of Rs. 5,000 after 5 years. The profit before depreciation and taxes for the five year period are expected to be Rs. 5,000, Rs. 6,000, Rs. 7,000, Rs. 8,000 and Rs. 10,000 respectively. Assuming straight line depreciation and a tax rate of 50 %, calculate ARR.
21. Explain the motives of holding cash.
22. The current price of a company's share is Rs. 200. The company is expected to pay a dividend of Rs. 5 per share with an annual growth rate of 10 %. If an investor's required rate of return is 12 %, should he buy the share ?
23. Explain the significance of financial leverage.

**Part C**

*Answer any two questions from the following.*

*Each question carries 10 marks.*

24. Discuss important executive financial decisions.
25. Explain the various techniques of inventory management.
26. From the following information, you are required to prepare a statement of working capital requirements for a level of activity of 1, 56,000 units.

<i>Particulars</i>	<i>Per unit (Rs.)</i>
Raw materials ...	90
Direct Labour ...	40
Overheads ...	75
Profit ...	60
Selling price ...	265

*Additional information :*

- (a) Raw materials in stock - 1 month.
- (b) Finished goods in stock - 1 month.
- (c) Materials are in process - 2 weeks.
- (d) Credit period (suppliers) - 1 month.
- (e) Credit period (customers) - 2 months.
- (f) Lag in payment of wages - 1.5 weeks.
- (g) Lag in payment of overheads - 1 month.
- (h) Cash sales - 20 % of sales.

Cash balance required - Rs. 60,000.

**Turn over**

27. A Ltd. is considering the replacement of an existing machine. Two options are available. The cash flows are given below :

<i>Year</i>	<i>Cash Inflows</i>		<i>PV Factor @ 10 %</i>
	<i>Machine A (Rs.)</i>	<i>Machine B (Rs.)</i>	
0	... (25,00,000)	(40,00,000)	1.00
1	... Nil	10,00,000	0.91
2	... 5,00,000	14,00,000	0.83
3	... 20,00,000	16,00,000	0.75
4	... 14,00,000	17,00,000	0.68
5	... 14,00,000	15,00,000	0.62

Find out NPV and PI.



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NOVEMBER 2022**

B.Com.

BCM 5B 11—FINANCE SPECIALIZATION—II—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Two Hours and a Half

Maximum : 80 Marks

**Section A***Answer all the questions. (2 marks each) (Max. 25 Marks)*

1. What is the fundamental principle of finance ?
2. What is capital budgeting ?
3. What is the difference between gross working capital and net working capital ?
4. What do you mean by stock split ?
5. What do you mean by trading on equity ?
6. What is profitability index ?
7. What is weighted average cost of capital ?
8. What are the costs associated with receivables ?
9. What does stock dividend mean ?
10. What do you mean by cost of capital ?
11. What do you understand by post pay back profitability ?
12. Distinguish between operating and financial leverage.
13. What do you mean by sweat equity ?
14. Explain under capitalisation.
15. What is dividend pay-out ratio ?

(15 × 2 = 30 Maximum ceiling 25 Marks)

**Turn over**

**Section B**

*Answer all the questions. (5 marks each) (Max. 35 Marks)*

16. Discuss the steps involved in capital budgeting process.
17. Briefly explain ploughing back of profits. State its importance.
18. Explain the functional areas of financial management.
19. Distinguish between permanent working capital and temporary working capital.
20. Explain the factors which influence the dividend decisions of a firm.
21. What are the objectives of inventory control?
22. The cost of goods sold of Sunrise Ltd. is Rs. 5,00,000. The opening inventory is Rs. 40,000 and closing inventory is Rs. 60,000. Find out inventory turnover ratio.
23. A company has sales of Rs. 5,00,000, variable costs Rs. 3,00,000, fixed costs Rs. 1,00,000 and long-term loans of Rs. 4,00,000 at 10% rate of interest. Calculate composite leverage.

(8 × 5 = 40 Maximum ceiling 35 Marks)

**Section C**

*Answer any two of the following. (10 marks each)*

24. Define capital structure. What are the principal determinants on the capital structure of a firm ? Explain the important theories of capital structure.
25. Define financial management. Discuss the scope and importance of financial management.
26. A company is considering an investment proposal to install a new machinery at a cost of Rs. 2,50,000. It has a life expectancy of 5 years and has no salvage value. The tax rate is 40%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before tax and after depreciation (CFBT) from the investment proposal are as follows :

Year	CFBT	P.V. Factor at 10%
	Rs.	
1 ...	60,000	0.909
2 ...	70,000	0.826
3 ...	90,000	0.751
4 ...	1,00,000	0.683
5 ...	1,50,000	0.621

You are required to compute :

- (i) Average rate of return.
- (ii) NPV at 10% discount rate.
- (iii) Profitability index at 10% discount rate.

27. 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 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.

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

(2 × 10 = 20 marks)

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**FIFTH SEMESTER U.G. DEGREE EXAMINATION, NOVEMBER 2021**

(CBCSS—UG)

B.Com.

BCM 5B 11—FINANCE SPECIALIZATION II—FINANCIAL MANAGEMENT

(2019 Admissions)

Time : Two Hours and a Half

Maximum : 80 Marks

**Section A**

*Answer at least **ten** questions.  
Each question carries 3 marks.  
All questions can be attended.  
Overall Ceiling 30.*

- |                                      |                                       |
|--------------------------------------|---------------------------------------|
| 1. Explain scrip dividend.           | 2. What is composite leverage ?       |
| 3. Define financial management.      | 4. What is capital rationing ?        |
| 5. What do you mean by stock split ? | 6. What is rights issue ?             |
| 7. What do you mean by IRR ?         | 8. Explain lock box system.           |
| 9. What is ABC analysis ?            | 10. What is capital structure ?       |
| 11. Define working capital.          | 12. What is economic order quantity ? |
| 13. Briefly explain FIFO method.     | 14. What is re-ordering level ?       |
| 15. What is EPS ?                    |                                       |

(10 × 3 = 30 marks)

**Section B**

*Answer at least **five** questions.  
Each question carries 6 marks.  
All questions can be attended.  
Overall Ceiling 30.*

16. Explain the functions of financial management.
17. What are the different sources of working capital ?
18. Enumerate the assumptions of MM hypothesis of the irrelevance theory of dividend.
19. What are the considerations in forming the credit policy of a firm ?
20. What are the motives of holding cash ?
21. Discuss the factors influencing capital budgeting decisions.

**Turn over**

22. A company provides the following information.
- (i) The carrying costs per unit of inventory are Rs. 10.
  - (ii) The fixed costs per order are Rs. 20.
  - (iii) The number of units required is 30,000 per year.
  - (iv) The variable costs per unit ordered are Rs. 2.
  - (v) The purchase price per unit is Rs. 30.

Determine the economic order quantity (EOQ).

23. From the following information, calculate average collection period.

Total sales	Rs. 1,00,000
Cash sales	Rs. 20,000
Sales return	Rs. 7,000
Debtors at the end of the year	Rs. 11,000
Bills Receivable	Rs. 4,000
Creditors	Rs. 15,000

(5 × 6 = 30 marks)

### Section C

*Answer any two questions.  
Each question carries 10 marks.*

24. Explain the various factors which influence the dividend decision of a firm.
25. Discuss capital structure. Enumerate the important determinants of capital structure.
26. Prepare income statements from the following information collected from the records of two companies A and B.

Particulars	A	B
Variable expenses as a percentage of sales	66.67	50
Interest expenses	200	1,000
Degree of operating leverage	5	6
Degree of financial leverage	3	2
Income tax rate	35	35

27. A company has an investment opportunity costing Rs. 40,000 with the following net cash flow after taxes and before depreciation :

Year	P.V. of Re.1 at 10%	P.V. of Re.1 at 15%	Net cash flow
1	0.909	0.870	7,000
2	0.826	0.756	7,000
3	0.751	0.658	7,000
4	0.683	0.572	7,000
5	0.621	0.497	7,000
6	0.564	0.432	8,000
7	0.513	0.376	10,000
8	0.467	0.327	15,000
9	0.424	0.284	10,000
10	0.386	0.247	4,000

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

- Payback period.
- Net Present Value at 10% discount factor.
- Profitability index at 10% discount factor.
- Internal rate of return with the help of 10% and 15% discount factor.

(2 × 10 = 20 marks)