

B.Com. DEGREE EXAMINATION, NOVEMBER 2018
III Year VI Semester
Core Elective - Paper
FINANCIAL MANAGEMENT

Time : 3 Hours

Max.marks :75

Section A ($10 \times 2 = 20$) Marks

Answer any **TEN** questions

1. Define Financial Management.
2. What is NOI?
3. What is EBIT?
4. What are bonus shares?
5. What is stock split?
6. Define capital structure.
7. What is working capital ?
8. What is cost of capital ?
9. Define capital budgeting.
10. What is optimum level of receivables ?
11. What are the two types of working capital concepts?
12. Write short note on EPS?

Section B ($5 \times 5 = 25$) Marks

Answer any **FIVE** questions

13. What is finance function ? What are its aims ?
14. What are the objectives of financial management?
15. Vijay Ltd. Wants to raise Rs.50 lakhs by the issue of new equity shares. The relevant information is given below:

No. of existing shares	10 lakhs
Profit after tax	Rs.60 lakhs
Market value of existing shares	Rs.400 lakhs

- a. Compute the cost of existing equity capital.
- b. Compute the cost of new capital if the shares are issued at a price of Rs. 32 per share and the issue expenses are Rs. 2 per share.

16. Hindustan Motors Ltd. expects its cost of goods sold for the next year to be Rs.12,00,000. The expected operating cycle is 90 days. The company's policy is to carry a minimum cash balance of Rs.1,00,000. Estimate the working capital requirements.
17. What are the factors influencing dividend policy?
18. What is fixed capital ? Discuss the determinants of fixed capital.
19. What are the objectives of inventory management ?

Section C ($2 \times 15 = 30$) Marks

Answer any **TWO** questions

20. Explain EBIT – EPS approach with suitable example.
21. The Alpha Co. Ltd. Is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested, each having an initial cost of Rs. 4,00,000 and requiring Rs.20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be as follows:

Year	Cash inflows	
	Machine A	Machine B
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10 % and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable ?

22. X Ltd. Plans to sell 1,20,000 units next year. The expected cost of goods is as follows:

Raw material	Rs.100
Wages	Rs.30
Overheads(including depreciation @ Rs. 5 per unit)	Rs.25
Selling Price	Rs.200

The duration of various stages of operating cycle is expected to be as follows:

Raw Material	2 months
Work-in-Progress stage	1 month
Finished Goods stage	1/2 month
Debtors stage	1 month

Estimate the working capital requirements if the desired cash balance is 5% of gross working capital requirement.

23. From the following particulars, prepare a Cash budget for 3 months ending 31st March 2006.

- a. Sales forecast:

January	Rs.40,000	April	Rs.60,000
February	Rs.45,000	May	Rs.50,000
March	Rs.55,000		

- b. Other details are as follows:

Cash balance	Rs.7,500
Stocks	Rs.51,000
Accrued sales commission	Rs.3,500

- c. 40 % of the sales are cash basis. Credit sales are collected in the month following the sales.
- d. Cost of sales is 60 % of sales.
- e. A sale commission of 5% on sales is paid in the month after it is earned.
- f. Inventory kept is equal to sales requirements for the next 2 months budgeted sales.
- g. Creditors are paid in the month following the purchase.