B.Com DEGREE EXAMINATION,APRIL 2019
III Year VI Semester
Financial Management

Time : 3 Hours **Max.marks :75**

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

Answer any **TEN** questions

1. Define Financial Management.
2. List the long term sources of Finance.
3. What is Profitability Index?
4. What is cost of capital?
5. What is operating cycle?
6. What is optimum capital structure?
7. Mention the functions of a finance manager.
8. Vaishnav Industries Ltd issues 5000, 12% Debentures of Rs100 each at par. Tax rate is 40%. Calculate after tax cost of Debt?
9. Calculate the Financial Leverage from the following details:

	Rs.
Sales	50, 000
Variable Cost	25, 000
Interest	5, 000
Fixed Cost	15, 000

10. Compute the annual cash flows from the following information:

    Net Profit for the year Rs.2,00,000

    Tax Rate is 40%

    Depreciation is Rs.20, 000
11. A project requires Rs.20, 000 as initial Investment that will generate a cash inflow of Rs.5000 for 10 years. Calculate the Pay Back Period?
12. Vishnu 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.

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

Answer any **FIVE** questions

13. What are the objectives of financial management?

14. The following projections have been given in respect of Bright & CO:

Output	-	3,00,000 units
Fixed cost (Rs.)	-	3,50,000
Per Unit variable cost (Re)	-	1
Interest expenses (Rs.)	-	25,000
Unit selling price (Rs.)	-	3

On the basis of above information, Calculate (a) Operating leverage (b) Financial leverage (c) Combined leverage.

15. A company raised preference share capital of Rs. 60,00,000 by issue of 15% preference shares of Rs. 100/- each. The issue expenses were Rs.60,000. Calculate the cost of preference capital when they are issued at

a) 10% premium

b) 5% discount

16. A company proposing to expand its production can go in either for an automatic machine costing Rs. 2,24,000 with an estimated life of $5\frac{1}{2}$ years or an ordinary machine costing Rs.60,000 having an estimated life of 8 years. The annual sales and costs are estimated as follows:

	Automatic machine Rs.	Ordinary Machine Rs.
Sales	1,50,000	1,50,000
Costs :		
Material	50,000	50,000
Labour	12,000	60,000
Variable overheads	24,000	20,000

Compute the comparative profitability of the proposals under the payback period. Ignore income tax.

17. Prepare an estimate of working capital requirement from the following information of a trading concern.

a)	Project annual sales	Rs. 9,00,000
b)	% of net profit on sales	20%
c)	Average credit period allowed to customer	1 month
d)	Average credit period allowed by supplier	2 months
e)	Average stock holding in terms of sales requirement	2.5 months
f)	Allow 10% for contingencies	

18. Explain the types of dividend policies.
19. What are the motives of holding inventory?.

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

Answer any **TWO** questions

20. Cost sheet of a company provides the following particulars: Elements of cost on sales: Raw materials – 40% Labour 10% and Overheads 30%

    The following particulars are also available:

    (i) Raw-materials remain in stock for 6 weeks

    (ii) Processing time 4 weeks

    (iii) Finished goods are in stock for 5 weeks

    (iv) Period of credit allowed to debtors – 10 weeks

    (v) Lag in payment of wages – 2 weeks

    (vi) Period of credit allowed by creditors – 4 weeks

    (vii) Selling price Rs. 50 per unit

    (viii) Production in units 13,000 p.a.

    Prepare an estimate of working capital.

21. Prepare a Cash budget for 3 months ending July 2017.

Month	Cr sales	Cr Pur	Wages	Mfg exp	Off exp	Sell exp
Mar	60,000	36,000	9,000	4,000	2,000	4,000
Apr	62,000	38,000	8,000	3,000	1,500	5,000
May	64,000	33,000	10,000	4,500	2,500	4,500
Jun	58,000	35,000	8,500	3,500	2,000	3,500
Jul	56,000	39,000	9,500	4,000	1,000	4,500
Aug	60,000	34,000	8,000	3,000	1,500	4,500

a) Cash balance on 1st May 2009 Rs 8000

b) Plant costing Rs 16,000 is due for delivery in July, payable 10% on delivery & balance after 3 months

c) Advance Tax of Rs 8000 each is payable in March & June

d) Period of credit allowed by suppliers is 2 months & to customers is 1 month

e) Lag in payment of manufacturing expense is half month

f) Lag in payment of office & selling expense is half month

22. Victoria Ltd is considering the purchase of one of the two machines. As the basis for selection, the following data was developed.

Particulars	Machine A (Rs)	Machine B (Rs)
Original Cost	25,565	25,565
Profit After Tax:		
Year 1	687	4687
Year 2	1687	3687
Year 3	2687	2687
Year 4	3687	1687
Year 5	4687	687
Total	13435	13435

The expected rate of return for the company is 16%. Both the machines have a life of five years and will not have any salvage value. The company is in the 40% tax bracket.

You are required to calculate NPV and Profitability Index. Suggest the most profitable machine.

Year	1	2	3	4	5
P.V. Factor @16%	0.862	0.743	0.641	0.552	0.476

23. Explain the factors determining dividend policy.