

B.Com(ISM) DEGREE EXAMINATION, APRIL 2019
III Year V 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. What is trading on equity?
3. What is meant by leverage?
4. Define cost of capital.
5. What is weighted average cost of capital?
6. What is capital rationing?
7. What is meant by capital budgeting?
8. What is meant by payback period?
9. What is meant dividend policy?
10. What is meant by bonus issue?
11. What is meant by operating cycle of working capital?
12. Define working capital.

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

Answer any **FIVE** questions

13. What are the objectives of financial management?
14. A firm has sales of Rs.75,00,000 variable cost of Rs.42,00,000 and fixed cost of Rs.6,00,000. It has a debt of Rs.45,00,000 at 9% and equity of Rs.55,00,000. Calculate operating, financial and combined leverage of the firm.
15. What are the different forms of dividend?
16. How would you calculate the cost of retained earnings?
17. The following are the cash inflows and outflows of a certain project of ABC Ltd.

Year	Outflows	Cash inflow
0	1,50,000	
1	30,000	30,000
2		30,000
3		50,000
4		60,000
5		40,000

The salvage value at the end of 5 years is Rs.40, 000. Taking the 4 years cut off rate as 10%. Calculate net present value

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

18. List out the various methods of Capital Budgeting.
19. Peerless Ltd is engaged in customer retailing. You are required to forecast their working capital requirements from the following information.

Projected annual sales	Rs. 6,50,000
Percentage of Net Profit to cost of sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying(in terms of sales requirement)	8 weeks

Add 20% to allow for contingencies

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

Answer any **TWO** questions

20. What is meant by capital structure? What are the factors determining capital structure of a firm?
21. Briefly explain the factors which determine dividend policy of a firm.
22. From the following information prepare a statement in columnar form showing the working capital requirements.

Budgeted sales(Rs. 10 per unit) Rs 2,60,000 p.a

Analysis of Costs	Rs
Raw Material	3.00
Direct Labour	4.00
Overheads	2.00

Total Cost	9.00
Profit	1.00

Sales	10.00

It is estimated that

- (i) Raw materials are carried in stock for three weeks and finished goods for two weeks.
- (ii) Factory processing will take three weeks.
- (iii) Suppliers will give full five weeks credit.

(iv) Customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

23. Lal Ltd is considering the purchase of a new machine which will carry out operations performed by labour. A and B are alternative models. Prepare profitability statement and work out payback period in respect of each machine based upon the following information.

Particulars	Machine A	Machine B
Estimated life of machine(years)	5	6
Cost of machine(Rs)	1, 50,000	2, 50,000
Cost of indirect materials(Rs)	6,000	8,000
Estimated savings in scrap(Rs)	10,000	15,000
Additional cost of maintenance(Rs)	19,000	27,000
Estimated savings in direct wages:		
Employees not required(Numbers)	150	200
Wages per employee(Rs.)	600	600

Taxation is to be regarded as 50% of profit(ignore depreciation for calculation of tax) which model would you recommend? State your reasons.