

FIFTH SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2012

(CCSS)

BC 5B 11—FINANCIAL MANAGEMENT

(Specialisation—Finance)

Three Hours

Maximum : 30 Weightage.

Part A

*This part consists of three bunches of questions carrying equal weightage.
Each bunch has four questions.
Answer all twelve questions.*

A. Fill in the blanks :

- 1 ——— determines the number of years required to recover the initial investment outlay.
- 2 ——— is the best method of evaluating long-term investment proposals.
- 3 Among all long-term sources of finance ——— capital carries maximum cost.
- 4 ——— is usually considered as the cheapest source of finance available to the firm.

B. Choose the correct answer from brackets :

- 5 According to NI approach capital structure decision is ——— in the valuation of the firm. (relevant/irrelevant)
- 6 According to MM theory dividend policy is ——— in the valuation of the firm. (relevant/irrelevant).
- 7 Cost of capital is the ——— rate of return expected by its investors. (minimum/maximum)
- 8 Capital gearing refers to the relation between equity capital and ———. (preference capital/debt).

C. Answer in one word :

- 9 Maximisation of what is the most appropriate goal at financial management.
- 10 Trading on equity is also known as what ?
- 11 Give the formula for before tax cost of irredeemable debt.
- 12 Give another name for working capital.

(12 × ¼ = 3 Weightage)

Part B

*Answer all nine questions in one or two sentences each.
Each question carries a weightage of 1.*

- 13 What is annuity ?
- 14 What is the purpose of capital budgeting ?

Turn over

- 15 What is after tax cost of capital ?
- 16 What is leverage ?
- 17 What is combined leverage ?
- 18 What is stable dividend policy ?
- 19 What is EPS ?
- 20 What is operating cycle ?
- 21 What are the costs associated with receivables ?

(9 × 1 = 9 Weightage)

Part C

*Answer any five questions. Answer shall not exceed one page each.
Each question carries a weightage of 2.*

- 22 "Investment and financing decisions are interrelated." Comment.
- 23 Explain the importance of capital budgeting.
- 24 Discuss the factors that influence capital structure planning.
- 25 What is financial leverage ? When it becomes infavourable ?
- 26 X Ltd. provides you the following information :
 - (a) Purchase price of machine Rs. 80,000.
 - (b) Installation charges Rs. 20,000.
 - (c) Estimated salvage value at the end of useful life Rs. 40,000.
 - (d) Useful life 4 years.
 - (e) Working capital required Rs. 10,000.
 - (f) Annual earning before depreciation and tax Rs. 65,000.
 - (g) Tax rate 30 %.
 - (h) Depreciation—Straight line method.

Calculate the accounting rate of return.

- 27 Y Ltd., provides you the following information :
 - (a) Purchase price of machine Rs. 1,90,000.
 - (b) Installation expenses Rs. 10,000.
 - (c) Useful life of the machine 5 years.
 - (d) Salvage value, Nil.
 - (e) Tax rate 30 %.

Calculate to payback period if earnings after tax are Rs. 1,00,000 per annum.

- 28 Z Ltd. issued Rs. 100 lakhs 12 % debentures of Rs. 100 each. Calculate cost of debt assuming corporate tax rate of 40 %.

(5 × 2 = 10 Weightage)

Part D

Answer any two questions.

Each question carries a weightage of 4.

- 29 Critically examine the Net Income and Net Operating income approaches to capital structure.
- 30 The following table gives the capital structure and specific cost of capital. Calculate weighted average cost of capital using book value weights :

Source	Book value Rs.	Specific cost
Debentures ...	3,00,000	4.77 %
Preference shares ...	2,00,000	10.53 %
Equity shares ...	4,00,000	14.59 %
Retained earnings ...	1,00,000	14.00 %

- 31 X Ltd. wishes to purchase a business and seeks your advice about the average working capital requirements in first year's trading. The following data are available and you are told to add 10 % to allow for contingencies :

- (a) Average amount locked up in stocks of :
- Materials and stores—Rs. 16,000
 - Work-in-progress and finished goods 10,000.
- (b) Average credit allowed to :
- Local sales—2 weeks Rs. 1,56,000
 - Export sales—6 weeks Rs. 6,24,000
- (c) Time-lag in payments for :
- Purchases—4 weeks Rs. 1,92,000
 - Wages—2 weeks Rs. 5,20,000.

Calculate the average amount of working capital required.

(2 × 4 = 8 Weightage)