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Name.....

Reg. No.....

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2016

(CUCBCSS—UG)

BCM 5B 11—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 80 Marks

Part I

Answer **all** *questions.*

Each question carries 1 *mark.*

(A) Choose the correct answer from the choices given :

1 ABC analysis is used in :

(a) Cash management. (b) Inventory management.

(c) Corporate ethics. (d) Corporate responsibilities.

2 Compounding technique is used to find out :

(a) Present value of money. (b) Future value of money.

(c) Preference of money. (d) None of these.

3 Cost of issuing new shares to the public is known as :

(a) Flotation cost. (b) Specific cost.

(c) Marginal cost. (d) Cost of equity.

4 'Bird in hand' argument is given by :

(a) David durand. (b) MM model.

(c) Gordon's model. (d) Traditional model.

5 Which of the following is not incorporated in capital budgeting ?

(a) Tax effect. (b) Time value of money.

(c) Required rate of return. (d) Rate of cash discount.

(B) Fill in the blanks :

6 Cost of retained earnings is the ——— cost of dividend foregone by the equity shareholders.

7 Financial leverage is also known as ———.

8 ——— working capital means the total current asset.

Turn over

9 When dividend is paid in cash it is termed as ——— dividend.

10 The decision concerned with the procurement of total funds required by a firm is known as ———.

(10 × 1 = 10 marks)

Part II

Answer any **eight** *questions.*
Each question carries 2 *marks.*

11 What are the dimensions of receivables management ?

12 Distinguish between operating leverage and financial leverage.

13 What is Internal Rate of Return ?

14 What is sweat equity ?

15 What do you mean by capital rationing ?

16 What do you mean by overall cost of capital ?

17 What is meant by Realized Yield Method ?

18 What do you mean by financial engineering ?

19 Distinguish between shares and debentures.

20 What is sensitivity analysis ?

(8 × 2 = 16 marks)

Part III

Answer any **six** *questions.*
Each question carries 4 *marks.*

21 Describe the scope of financial management.

22 Discuss the applications of time value techniques.

23 From the following data, compute the operating cycle of X Ltd. :

		X Ltd. (Rs.)
Stocks :		
Raw material	...	45,000
Work-in-process	...	30,000
Finished goods	...	28,000
Purchase / consumption of raw material per day	...	1, 60,000
Cost of goods produced/sold per day	...	3, 00,000
Credit sales per day :	...	3,60,000
Debtors	...	72,000
Creditors	...	20,000

Assume 365 days for computational purposes.

24 Discuss the importance of debentures as a source of finance.

25 What are the principles of working capital management ?

26 Explain the factors determining capital structure.

27 Describe NOI approach of capital structure.

28 Calculate cost of capital in the following cases:

(a) X Ltd. issues 11% debentures of face value of Rs. 100 each and realises Rs. 95 per debenture. The debentures are redeemable after 10 years at a premium of 9%

(b) Y Ltd issues preference shares of face value of Rs. 100 each carrying 15% dividend and realises Rs. 92 per share. The shares are repayable after 12 years at par.

(6 × 4 = 24 marks)

Part IV

Answer any **two** *questions.*
Each question carries 15 *marks.*

29 Explain MM model and Walter's Model of dividend theory.

30 The following figures relate to two companies :

	A Ltd.	B Ltd.
	Rs.	Rs.
Sales ...	8,00,000	16, 00,000
Variable cost ...	3,00,000	4, 50,000
Contribution ...	5,00,000	11,50,000
Fixed cost ...	2,00,000	5,00,000
EBIT ...	3,00,000	5,50,000
Interest ...	50,000	1,50,000
Profit before tax ...	2,50,000	4,00,000

You are required to :

(a) Calculate the operating, financial and combined leverages for the two companies.

(b) Comment on the relative risk position of the companies.

31 A company is considering an investment proposal of purchasing a machine costing Rs. 3,00,000.The machine has life expectancy of 5 years and depreciation is charged on straight line method. The estimated cash flows from the machine are as follows :

Year	...	1	2	3	4	5
Cash inflows before tax after depreciation	...	70,000	75,000	85,000	1,00,000	1,50,000
PV factor at 8% discount rate	...	.926	.857	.794	.735	.681

Assuming corporate tax rate of 40 %, calculate :

1 Payback period

2 Net present value.

(2 × 15 = 30 marks)