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(Pages : 4)

Name.....

Reg. No.....

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2017

(CUCBCSS—UG)

BCM 5B 11—FINANCIAL MANAGEMENT

(Multiple Choice Questions for SDE Candidates)

Time : 15 Minutes

Total No. of Questions : 20

Maximum : 20 Marks

INSTRUCTIONS TO THE CANDIDATE

1. This Question Paper carries Multiple Choice Questions from 1 to 20.
2. The candidate should check that the question paper supplied to him/her contains all the 20 questions in serial order.
3. Each question is provided with choices (A), (B), (C) and (D) having one correct answer. Choose the correct answer and enter it in the main answer-book.
4. The MCQ question paper will be supplied after the completion of the descriptive examination.

BCM 5B 11—FINANCIAL MANAGEMENT

(Multiple Choice Questions for SDE Candidates)

1. Which of the following appearing in the balance sheet generates tax advantage and hence affects the capital structure decision ?
 - (A) Reserves and Surplus.
 - (B) Long-term debt.
 - (C) Preference Share Capital.
 - (D) Equity Share Capital.
2. Walter's Model suggests for 100% DP Ratio when :
 - (A) $k_e = r$.
 - (B) $k_e < r$.
 - (C) $k_e > r$.
 - (D) $k_e = 0$.
3. Walter's Model suggests that a firm can always increase i.e., of the share by :
 - (A) Increasing Dividend.
 - (B) Decreasing Dividend.
 - (C) Constant Dividend.
 - (D) None of the above.
4. Dividend irrelevance argument of MM Model is based on :
 - (A) Issue of Debentures.
 - (B) Issue of Bonus Share.
 - (C) Arbitrage.
 - (D) Hedging.
5. Which of the following stresses on investor's preference reorient dividend than higher future capital gains ?
 - (A) Walter's Model.
 - (B) Residuals Theory.
 - (C) Gordon's Model.
 - (D) MM Model.
6. Shares of face value of Rs. 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is :
 - (A) Rs. 5.
 - (B) Rs. 4.
 - (C) Rs. 80.
 - (D) Rs. 50.
7. Dividends are paid out of :
 - (A) Accumulated Profits.
 - (B) Gross Profit.
 - (C) Profit after Tax.
 - (D) General Reserve.
8. 'Constant Dividend Per Share' Policy is considered as :
 - (A) Increasing Dividend Policy.
 - (B) Decreasing Dividend Policy.
 - (C) Stable Dividend Policy.
 - (D) None of the above.

9. Stock split is a form of :
- (A) Dividend Payment. (B) Bonus Issue.
(C) Financial restructuring. (D) Dividend in kind.
10. Which of the following is not considered in Lintner's Model ?
- (A) Dividend payout ratio. (B) Current EPS.
(C) Speed of Adjustment. (D) Preceding year EPS.
11. Baumol's Model of Cash Management attempts to :
- (A) Minimise the holding cost.
(B) Minimization of transaction cost.
(C) Minimization of total cost.
(D) Minimization of cash balance.
12. Marketable securities are primarily :
- (A) Equity shares'. (B) Preference shares.
(C) Fixed deposits with companies. (D) Short-term debt investments.
13. Which of the following is not an element of credit policy ?
- (A) Credit Terms. (B) Collection Policy.
(C) Cash Discount Terms. (D) Sales Price.
14. Which of the following is not a technique of receivables Management ?
- (A) Funds Flow Analysis. (B) Ageing Schedule.
(C) Days sales outstanding. (D) Collection Matrix.
15. Credit Policy of a firm should involve a trade-off between increased :
- (A) Sales and Increased Profit.
(B) Profit and Increased Costs of Receivables.
(C) Sales and Cost of goods sold.
(D) None of the above.

16. If the sales of the firm are Rs. 60,00,000 and the average debtors are Rs. 15,00,000 then the receivables turnover is :
- (A) 4 times. (B) 25%.
(C) 400%. (D) 0.25 times.
17. Receivables Management deals with :
- (A) Receipts of raw materials. (B) Debtors collection.
(C) Creditors Management. (D) Inventory Management.
18. ABC Analysis is used in :
- (A) Inventory Management. (B) Receivables Management.
(C) Accounting Policies. (D) Corporate Governance.
19. In ABC inventory management system, class A items may require :
- (A) Higher Safety Stock. (B) Frequent Deliveries.
(C) Periodic Inventory system. (D) Updating of inventory records.
20. Which of the following is true for a company which uses continuous review inventory system ?
- (A) Order Interval is fixed. (B) Order Interval varies.
(C) Order Quantity is fixed. (D) Both (A) and (C).

FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2017

(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 Discounting technique is used to :

- (a) Find out future value of money.
- (b) Find out present value of money.
- (c) Find out both future and present value of money.
- (d) None of the above.

2 Which of the following is the short-term source of funds :

- (a) Trade Credit.
- (b) Share.
- (c) Debenture.
- (d) None of these.

3 The usual method of paying dividend is :

- (a) Scrip.
- (b) Property.
- (c) Cash.
- (d) Stock.

4 Requirements of working capital depends upon :

- (a) Size of the business.
- (b) Credit policy adopted.
- (c) Operating cycle involved.
- (d) All the above.

5 In which method the interest rate that equates the present value of expected future cash inflows to the cost of the investment outlay is considered :

- (a) Present Value Index.
- (b) NPV method.
- (c) Discounted cash inflow.
- (d) IRR method.

Turn over

(B) Fill in the blanks :

- 6 Net working capital is the excess of _____ over _____.
- 7 Cost of retained earnings is the _____ cost of dividends foregone by the equity shareholders.
- 8 Ploughing back of profits is an _____ source of capital.
- 9 Issue of bonus shares is a remedial measure for _____ capitalisation.
- 10 Shares having no face value are known as _____.

(10 × 1 = 10 marks)

Part II

Answer any eight questions.

Each question carries 2 marks.

- 11 Distinguish between gross working capital and net working capital.
- 12 What is Scrip dividend ?
- 13 What is weighted average cost of capital ?
- 14 What do you mean by ARR ?
- 15 What is stable dividend policy ?
- 16 What are sweat equity shares ?
- 17 Distinguish between implicit cost and explicit cost.
- 18 What is meant by stock split ? When it is done ?
- 19 What is capital gearing ?
- 20 What do you mean by discounting technique ?

(8 × 2 = 16 marks)

Part III

Answer any six questions.

Each question carries 4 marks.

- 21 What are the arguments in favour of wealth maximisation goal ?
- 22 Explain briefly ploughing back of profits. State its advantages.

- 23 A project costs Rs. 20,00,000 and yields a profit of Rs. 4,00,000 annually for 10 years. The profit is before depreciation and taxes. You are required to calculate the payback period assuming 50% tax rate and depreciation on straight line method.
- 24 Explain the limitations of financial leverage.
- 25 What are the different types of dividend policies ?
- 26 What are the advantages of issuing bonus shares ?
- 27 Explain the dangers of redundant working capital.
- 28 A company issues 10,000, 10% preference shares of Rs.100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued (a) at par, (b) at premium of 10%, and (c) at a discount of 5%.

(6 × 4 = 24 marks)

Part IV

Answer any two questions.

Each question carries 15 marks.

- 29 What is capital structure ? What are the factors affecting capital structure ?
- 30 The following figures relating to two companies :

	A Ltd (in lakhs)	B Ltd (in lakhs)
Sales	1,000	2,000
Variable costs	400	600
Contribution	600	1,400
Fixed costs	300	800
EBIT	300	600
Interest	100	200
Profit before tax	200	400

You are required to :

- (i) Calculate the operating leverage, financial and combined leverages for the two companies ; and
- (ii) Comment on the relative risk position of them.

Turn over

31 A project costs Rs. 1,00,000 with an estimated cash inflows of Rs. 30,000, Rs. 40,000, Rs. 40,000, Rs. 50,000 and Rs. 60,000. Calculate :

- (a) Simple payback period.
- (b) Payback reciprocal.
- (c) Discounted payback period.
- (d) Net Present Value.
- (e) Profitability Index.

Apply discount rate of 10%.

(2 × 15 = 30 marks)