C 1019

(Pages : 4)

Name..................................

Reg. No..................................

SIXTH SEMESTER B.Com./B.B.A. DEGREE EXAMINATION MARCH 2021

(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION—IV : FINANCIAL MANAGEMENT

(2017 Admissions)

Time : Three Hours

Maximum : 80 Marks

Section A

Answer **all** *questions.*
Each question carries 1 *mark.*

A. Choose the correct answer :

1 The use of debt capital along with owners equity to maximise return is called :

(a) Capital budgeting.
(b) Financial leverage.
(c) Trading on equity.
(d) Both (b) and (c).

2 The ARR method is based on the :

(a) Cash inflow.
(b) Cash outflow.
(c) Accounting profit.
(d) All of these.

3 The discount rate which equates the present value of cash inflows with the present value of cash outflows :

(a) Implicit cost.
(b) Explicit cost.
(c) Specific cost.
(d) Historical cost.

4 The primary goal of the financial management is :

(a) To maximise the return.
(b) To minimise the risk.
(c) To maximise the wealth of owners.
(d) To maximise profit.

5 If net present value is positive then profitability index will be :

(a) Greater than one.
(b) One.
(c) Less than one.
(d) None of these.

Turn over

B. Fill in the blanks :

6 Profitability index is also known as ———— ratio.

7 The process of making investment decision in capital expenditure is ————.

8 During boom period in the share market, it would be advisable to issue ————.

9 ———— is the cost associated with particular component at capital structure.

10 Capital investment decisions are generally of ———— nature.

(10 × 1 = 10 marks)

Section B (Short Answer Questions)

Answer at least **five** *questions.*
Each question carries 4 *marks.*
All questions can be attended.
Overall Ceiling 20.

11 Define Financial Management.

12 What do you mean by hedging approach ?

13 Explain the limitations of payback period method.

14 Financial leverage is a double-edged weapon. Comment.

15 What do you mean by explicit cost ?

16 Explain time value of money.

17 Explain stock dividend.

18 Explain risk adjusted discount rate.

19 What do you mean by financial break-even point ?

20 Explain the term cost of capital.

(5 × 4 = 20 marks)

Section C (Short Essay Questions)

Answer at least **four** *questions.*
Each question carries 8 *marks.*
All questions can be attended.
Overall Ceiling 32.

21 Explain the methods of estimating working capital requirement.

22 Explain the method of accelerating cash inflows.

23 What are the limitations of capital budgeting ?

24 Explain the irrelevance concept of dividend ?

25 A company issue 10,000 10 % preference shares of Rs. 100 each redeemable after 10 years at premium of 5 %. The cost of issue is 2 per share. Calculate the cost of preference share capital ?

26 B Ltd. is planning to buy a machine costing Rs. 2,80,000 that has a salvage value of Rs. 20,000. The economic life of the machine is five years, during which it is expected to yield the following earnings, after tax.

Year	:	1	2	3	4	5
Profit	:	30,000	35,000	25,000	25,000	35,000

Apply ARR method, should the machine be purchased, if the existing rate of return of the company is 22 %.

27 A firm has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000 and fixed cost of Rs. 4,00,000 and debt of Rs. 10,00,000 at 10 % rate of interest. What are the operating, financial and combined leverage ?

28 P Ltd. has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further capital of Rs. 3,00,000 for expansion. The company plans the following schemes :

(a) All common stock.

(b) Rs. 1,00,000 Equity shares and Rs. 2,00,000 in 10 % Debentures.

(c) Rs. 1,00,000 in equity shares and Rs. 2,00,000 in 8 % preference share capital.

The company's EBIT is Rs. 1,50,000 and corporate tax is 50 %. Determine EPS in each plan and comment on the best alternative.

(4 × 8 = 32 marks)

Section D (Essay Questions)

Answer any **one** *question.*
Each question carries 18 *marks.*

29 Define Financial Management ? Explain the scope and objectives of financial management.

30 ABC Ltd. has the following book value capital structure :

		(Rs. *million*)
Equity share capital (10 million shares, Rs. 10 par)	...	100
Preference share capital, 11 % (1,00,000 shares, Rs. 100 par)	...	10
Retained earnings	...	120
Debentures, 13.5 % (5,00,000 debentures, Rs. 100 par)	...	50
Term loans, 12 %	...	80
		360

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at the rate of 7 %.The market price per share is Rs. 20. Preference stock, redeemable after 10 years is currently selling for Rs. 75 per share. Debentures, redeemable after 6 years are selling for Rs. 80 per debenture. The tax rate for the company is 50 %.

Calculate the weighted average cost of capital using book value proportions.

31 R. Ltd. is planning to buy a machine for Rs. 9,00,000, the earnings from which before charging the depreciation and taxes for the next five years are given as :

Year	:	1	2	3	4	5
EBDT	:	3,00,000	3,50,000	3,60,000	4,10,000	4,30,000

The machine shall be depreciated on straight line method basis. The company pays corporate taxes @ 30 %.Using NPV method, advice whether to purchase this machine or not, given that the cost of capital is 12 %.

PV factor at 12 %	0.893	0.797	0.712	0.636	0.567

(1 × 18 = 18 marks)