

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2017
(Fourth Semester) !

Branch - e-COMMERCE ‘

FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 75 Marks

SECTION-A (20 Marks)

Answer ALL questions

ALL questions carry EQUAL marks (10x2 = 20)

- 1 What is financial management?
- 2 Define financial decisions.
- 3 What is capital budgeting?
- 4 Define payback period.
- 5 Write a note on composite cost.
- 6 What do you mean by explicit cost of capital? ;
- 7 Define capital structure.
- 8 What is meant by financial lease?
- 9 Define receivables management. |
- 10 What is working capital? |

SECTION - B (25 Marks!) |

Answer ALL Questions

ALL Questions Carry EQUAL Marks (5x5 = 25)

- 11 a Discuss any five functional areas of financial management.
OR |
 - b Explain the scope of financial management.
 - 12 a Calculate the pay back period for a project which required a cash outlay of Rs. 10,000 and generates cash inflows of Rs. 2,000, Rs. 4,000, Rs. 3,000 and Rs. 2,000 in the first, second and third and fourth year respectively.
OR
 - b Calculate the NPV from the following particulars
- | Year | Amount | Present value at 10% |
|------|----------|----------------------|
| 1 | 5,000 | 1 0.909 |
| 2 | 20,000 | 2 0.826 |
| 3 | 30,000 | 3 0.751 |
| 4 | 3,00,000 | 4 * 0.683 |
| 5 | 10,000 | 5 0.621 |
- Cost of the project Rs. 50,500.
- 13 a A company issues 1,000 7% preference shares of Rs. 100 each at a premium of 10% redeemable after 5 years at par. Compute the cost of preference share capital.
OR
 - b The Xavier corporation, a dynamic growth firm which pays no dividends anticipates a long run level of future earnings of Rs. 7 per share. The current price of Xavier's share is Rs. 55.54, floatation costs for the sales of equity shares would average about 10% of the price of shares, what is the cost of new equity capital to Xavier?
 - 14 a Calculate operating and financial leverage from the following
Sales (1,00,000 units) Rs. 2,00,000, variable cost per unit Rs. 0.70, fixed cost Rs. 65,000, interest charges Rs. 15,000.

OR

Cont...

- 14 A company is expecting an annual earnings before interest and tax [EBIT] of Rs. 5,00,000 the company in its capital structure has 12% debentures of Rs. 15,00,000. The cost of equity or capitalization rate is 16%. You are required to calculate the value of firm and overall cost of capital according to net income approach.
- 15 a A manufacture buys certain equipment from outside suppliers at Rs .30 per unit. Total annual needs are 800 units. The following further data are available: Annual return on investment 10%, rent, insurance taxes, per units per year Rs. 1, cost of placing an order Rs. 100. Determine the economic order quantity.

OR

- b Explain the importance of working capital for a manufacturing concern.

SECTION - C (30 Marks)

Answer any THREE Questions

ALL Questions Carry EQUAL Marks (3 x 10 = 30)

- 16 Explain the objectives of financial management.
- 17 R Ltd is considering the purchase of a new machine which will carry at the operations performed by labour. Damsel and Shy lock are alternative models. From the following information you are required to prepare a profitability statement work out the payable period on respect of each of the machine.

| | Machine Damsel | Machine Shylock |
|-------------------------------------|-------------------|--------------------|
| Estimated life of machine (years) | 10 | 12 |
| Cost of the machine | 3,00,000 | 5,00,000 |
| Cost of the indirect materials (pa) | 12,000- | 16,000 |
| Estimated savings in scrap (pa) | 20,000 | 30,000 |
| Additional cost of maintenance (pa) | 14,000 | 22,000 |
| Additional cost of supervision (pa) | 24,000 | 32,000 |
| Estimated savings in direct wages | | |
| Employers not required (number) | 150 | 200 |
| Wages per employee pa | 1,200 | 1,200 |

Taxation is to be regarded as 50% of profit (ignore depreciation) which model would you recommend?

- 18 Calculate the weighted average cost of capital [after tax] from the following information assume that the tax rate is 55%.

| Type of capital | Proposition in the new capital structure | Before tax cost of capital |
|--------------------|---|-------------------------------|
| Equity capital | 25% | 24.44% |
| Preference capital | 10% | 27.29% |
| Debt capital | 50% | 7.99% |
| Retained earnings | 15% | 18.33% |

- 19 Explain different types of lease financing.
- 20 From the following estimate, calculate the average amount of working capital required?

| | Per annum (Rs.) |
|---|-----------------|
| 1. Average amount locked up in stock: | |
| Stock of finished goods and work-in-program | 10,000 |
| Stock of stores, materials etc. | 8,000 |
| 2. Average credit given: | |
| Local sales 2 week's credit | 1,04,000 |
| Outside state 6 week's credit | 3,12,000 |
| 3. Time available for payment | |
| For purchase 4 weeks | 78,000 |
| For wages 2 weeks | 2,60,000 |
| Add 10% for contingencies. | |