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PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BVoc DEGREE EXAMINATION DECEMBER 2023
(Third Semester)

Branch – **BANKING, STOCK AND INSURANCE**

FINANCIAL MANAGEMENT

Time: Three Hours | Maximum: 50 Marks

SECTION-A (5 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (5 x 1 = 5)

1. Profit maximization is concerned with maximization of
   (i) NPV (ii) EPS
   (iii) EBIT (iv) Profit

2. The decision rule under profitability index method is
   (i) PI >1 accept (ii) PI<1 reject
   (iii) both (i) and (ii) (iv) PI = 1 accept

3. The Explicit cost of capital is associated with
   (i) raising of funds (ii) internal financing
   (iii) opportunity cost (iv) utilization of funds

4. Financial leverage is zero when
   (i) firm uses no debt (ii) a firm uses debt
   (iii) a firm uses equity (iv) a firm uses no equity

5. Which of the factors do not influence the level of working capital
   (i) Nature of business (ii) Operating capital
   (iii) Sales (iv) size of the business

SECTION - B (15 Marks)
Answer **ALL** Questions
ALL Questions Carry **EQUAL** Marks (5 x 3 = 15)

6. a) What are the goals of financial management?
   (OR)
   b) Explain the various types of finance decisions.

7. a) The initial cash outlay of a project is Rs.50,000 and it generates cash inflows of Rs.20,000; Rs.15,000; Rs.25,000; and Rs.10,000 in four years. Using present value index method, appraise profitability of the proposed investment assuming 10% rate of discount.
   (OR)
   b) What is cut-off point? How will you decide cut-off rates?

8. a) 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 a premium of 10%
   (OR)
   b) What are the components of cost of capital?

9. a) Give a critical analysis of Modigliani-Miller approach to the problems of capital structure.
   (OR)
   b) The capital structure of Mary Ltd. Consists of Equity share capital of Rs.2,00,00 and 8%, Debentures of Rs.1,50,000. The fixed costs are Rs.30,000. You are required to calculate the operating and financial leverage when EBIT is Rs.60,000.

10. a) From the figures given below, calculate EOQ and number of orders to be placed per year

Total consumption of material per year	-	10,000 kg
Buying cost per order	-	Rs.50
Unit cost of materials	-	Rs.2 per kg
Carrying and storage cost	-	8% on average inventory.

   (OR)
   b) Explain the various sources of working capital requirements of a company.

Cont...

SECTION -C (30 Marks)

Answer any **Three** questions
ALL questions carry **EQUAL** Marks (3 x 10 = 30)

11. Explain the functions of financial management.

12. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%

	Project X	Project Y
Initial Investment	Rs.20,000	Rs.30,000
Estimated life	5 years	5 years
Scrap Value	Rs.1000	Rs.2000

The profit before depreciation and after taxes are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	5000	10000	10000	3000	2000
Project Y	20000	10000	5000	3000	2000
PV factor @10%	0.909	0.826	0.751	0.683	0.621

13. Explain the significance of cost of capital.

14. A firm has a capital structure exclusively comprising of ordinary shares amounting to Rs.10,00,000. The firm now wishes to raise additional capital of Rs.10,00,000 for expansion. The firm has four alternative financial plans:
A) It can raise the entire amount in the form of equity.
B) It can raise 50% as equity capital and 50% as 5% debentures;
C) It can raise the entire amount as 6% debenture;
D) It can raise 50% as equity capital and 50% as 5% preference capital.
Further assume that the existing EBIT are Rs.1,20,000, the tax rate is 50%, outstanding ordinary shares 10,000 and the market price per share is Rs.100 under all the four alternatives. Which financial plan should the firm select?

15. Explain various factors influencing working capital.

Z-Z-Z END