18COE25/ 18CRM22

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION DECEMBER 2023
(Fifth Semester)

Common to Branches – **COMMERCE (e- COMMERCE) / COMMERCE (RETAIL MARKETING)**

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 When the firm has sufficient cash to pay its dues, it has _____
(i) Solvency (ii) Liquidity
(iii) Profitability (iv) None of the above

2 Discounted cash flow analysis is also classified as _____
(i) Time value of stock (ii) Time value of bonds
(iii) Time value of money (iv) Time value of treasury bonds

3 Cost of capital refers to _____
(i) The cost of funds raised by the company (ii) Minimum expected return
(iii) Return on investment (iv) All of these

4 Which is a principle of capital structure?
(i) Risk principle (ii) Cost principle
(iii) Control principle (iv) All of these

5 The gross working capital is a _____ concern concept.
(i) Money measurement (ii) Going
(iii) Revenue concept (iv) Cost concept

SECTION - B (15 Marks)

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

6 a What are the basic financial decisions? How do you they involve risk-return trade off?

OR

b Bring out the functional areas of financial management.

7 a State the reasons for time preference for money.

OR

b There are two projects A and B. The cost of the project is Rs.30,000 in each case. The cash inflows are as under:

	Cash inflows	
Year	Project A	Project B
1	10,000	2,000
2	10,000	4,000
3	10,000	24,000

Calculate Pay Back Period.

8 a Explain cost of capital and give its significance.

OR

b Sri Ganesh Industries Ltd., issues 5,000 12% debentures of Rs.100 each at par. The tax rate is 40%. Calculate before tax and after tax cost of debt.

Cont...

9 a Analysis the features of a sound capital structure.

OR

b Calculate operating leverage for Maruti Ltd. From the following information:

No. of units produced	50,000
Selling price per unit	Rs.50
Variable cost per unit	Rs.20

Fixed cost per unit at current level of sales is Rs.15. What will be the new operating leverage, if the variable cost is Rs.40 per unit?

10 a The following forecasts are provided in respect of Siva Ltd. For the year 2020:

	Rs.		Rs.
Sales	13,50,000	Average debtors	1,50,000
Purchases	9,00,000	Average creditors	80,000
Cost of goods sold	9,15,000	Average stock	1,52,000

Find out the cash operating cycle given that all sales and purchases are made on credit.

OR

b From the following particulars given below, calculate Economic Order Quantity and the number of orders to be place per year.

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

SECTION -C (30 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** Marks (5 x 6 = 30)

11 a Highlight the objectives of financial management.

OR

b Discover the organization of finance function in a large organization.

12 a Mr. Krishna invested Rs.2,00,000 at 12 per cent p.a. for two years. What will be the value of investment after two years, if interest is compounded

i) Half-Yearly ii) Quarterly and iii) Monthly. Which is most beneficial to Krishna?

OR

b A choice is to be made between two competing proposals which require an equal investment of Rs.50,000 and are expected to generate net cash flows us under:

Year	Project I	Project II
1	25,000	10,000
2	15,000	12,000
3	10,000	18,000
4	NIL	25,000
5	12,000	8,000
6	6,000	4,000

The cost of capital of the company is 10%. The following are the Present Value Factors at 10% per annum.

Year	1	2	3	4	5	6
PV factor @ 10%	0.909	0.826	0.751	0.683	0.621	0.561

Which project proposal should be chosen and Why? Evaluate the project proposals under: i) Pay-back period ; and ii) Discounted Cash Flow Method.

13 a Examine the different methods of calculating the cost of capital.

OR

b Alpha Ltd. issued 10% redeemable preference shares of Rs.100 each, redeemable after 10years. The floatation costs were 5% of the nominal value. Compute the effective cost to the company if the issue is made at: i) Par; ii) a premium of 5%; iii) a discount of 5%.

14 a Krish Ltd. Is considering three financial plans:

Plan	Equity	Debt	Preference Shares
A	100%	-	-
B	50%	50%	-
C	50%	-	50%

Total funds to be raised = Rs.4,00,000
Cost of debt 10%, Cost of preference shares 10%
Tax rate 50%, Expected EBIT Rs.1,60,000.
Equity shares of the face value of Rs.10 each will be issued at a premium of Rs.10 per share. Determine for each plan: (i) Earnings per share; (ii) financial bread-even point; (iii) Indifference points between plant A and B; Plan A and C.

OR

b Income statement of Rishi Ltd. Is given below:

	Rs.		Rs.
Sales	10,50,000	Variable cost	7,67,000
Fixed cost	75,000	EBIT	2,08,000
Interest	1,10,000	Tax	29,400
Net income	68,600		

No. of equity shares – 4,000

Calculate: (a) Operating Leverage; (b) Financial Leverage; (c) Combined Leverage; (d) Earnings Per Share.

15 a XYZ Co. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.
You are given the following estimates and are instructed to add 10% to your computed figures to allow for contingencies.

	For the Year (Rs.)
(i) Average amount locked up in stocks:	
Stock of finished goods	5,000
Stock of stores and materials	8,000
(ii) Average credit given:	
Inland sales - 6 weeks	3,12,000
Export sales - 1½weeks	78,000
(iii) Lag in payment of wages and other outgoings:	
Wages - 1½ weeks	2,60,000
Stores, Materials etc. - 1½ weeks	48,000
Rent, royalties etc. - 6 months	10,000
Clerical staff salary - ½ month	62,400
Manager salary - ½ month	4,800
Miscellaneous expenses - 1 ½ months	48,000
(iv) Payment in advance:	
Sundry expenses (paid in quarterly in advance)	8,000
(v) Undrawn profits on the average throughout the year	11,000

Set up your calculations for the average amount of working capital required.

OR

b Star Ltd., is examining the question of relaxing its credit policy. It sell at present 10,000 units at a price of Rs.100 p.u. the variable cost p.u. is Rs.88 and the average cost p.u. at the current sales volume is Rs.92. All sales are on credit. The average collection period is 36 days.
A relaxed credit policy is expected to increased sales by 10% and the average age of receivables to 60 days. Assuming 15% return, should the firm relax its credit policy?

Z-Z-Z END