

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION DECEMBER 2024
(Fifth Semester)

Branch – COMMERCE (BUSINESS ANALYTICS)

FINANCIAL MANAGEMENT TECHNIQUES

Time: Three Hours

Maximum: 50 Marks

SECTION-A (5 Marks)

Answer ALL questions

ALL questions carry EQUAL marks

(5 x 1 = 5)

1. Financial management is primarily concerned with -----
 - a) Efficient management of the business
 - b) Procurement and utilization of finance
 - c) Arrangement of funds
 - d) Purchase of Assets
2. 'Ratio Analysis' involves the process of:
 - a) Recording
 - b) Computation
 - c) Relationship between two items
 - d) Soundness
3. Cost of capital is used a discount rate in evaluating capital expenditure proposals under
 - a) Average rate of return method
 - b) Payback period method
 - c) Net present Value method
 - d) Internal rate of return method
4. Cost of capital refers to -----
 - a) The cost of funds raised by the company
 - b) All of these
 - c) Return on investment
 - d) Minimum expected return
5. Gross working capital is the
 - a) Total value of current assets
 - b) Total value of fixed assets
 - c) Total value of all assets
 - d) Total value of non – Current assets

SECTION - B (15 Marks)

Answer ALL Questions

ALL Questions Carry EQUAL Marks

(5 x 3 = 15)

6. a) State the objectives of financial management.
(OR)
b) Explain the technique of compounding.
7. a) Following is the P & L A/c of shekar Fibres Ltd., for the year ended 31.12.2022 and 31.12.2023. You are required to prepare a common size income statement.

Particulars	202 2 Rs.	202 3 Rs.	Particulars	202 2 Rs.	2023 Rs.
To Cost of goods sold	300	375	By Net Sales	400	500
To Operating exp:					
Administrative	10	10			
Selling	15	20			
Net Profit	75	95			
	400	500		400	500

(OR)

- b) Current Ratio 2.5; Working capital Rs.60,000; Calculate the amount of current assets and current liabilities.

Cont...

8. a) Calculate the pay-back period for a project which requires a cash outlay of Rs. 1,00,000 and generates cash inflows of Rs. 25,000 Rs. 35,000, Rs.30,000, and Rs. 25,000 in the first, second, third and fourth years respectively.
(OR)
- b) A Project requires initial investment of Rs.85,000 and is expected to give cash flows of Rs.18,000, Rs.25,000, Rs.10,000, Rs.25,000 and Rs.30,000 for 5 years respectively. The project has a salvage value of Rs.10,000. The company's target rate return is 10%. Calculate the profitability of the project by using profitability index method.
9. a) Kalyan Ltd., issued 50,000 12% Debentures of Rs. 100 each at par. The tax rate is 40%. Calculate cost of debt before tax and after tax.
(OR)
- b) Two firms A and B are identical except in the method of financing. Firm A has no debt while firm B has Rs. 4,00,000, 5% Debentures in financing. Both the firms have a Net Operating Income (EBIT) of Rs. 1,00,000 and equity capitalization rate of 12%. The corporate tax rate is 40%. Calculate the value of the firms using MM approach.
10. a) Peerless Ltd. is engaged in customer retailing. You are required to forecast their working capital requirements from the following information.
- | | |
|--|-------------|
| Projected annual sales | Rs.6,50,000 |
| % of N.P. to cost of sales | 25% |
| Average credit allowed to debtors | 10 Weeks |
| Average credit allowed by creditors | 4 Weeks |
| Average stock carrying (in terms of sales requirement) | 8 Weeks |
| Add 20% to allow for contingencies. | |
- (OR)
- b) Describe the different sources of working capital available to the firm.

SECTION -C (30 Marks)

Answer any **Three** questions

ALL questions carry **EQUAL** Marks

(3 x 10 = 30)

11. Elucidate in brief the decisions involved in financial management.
12. "Ratio Analysis is a tool of management for measuring efficiency and guiding business policies" Discuss.
13. A Ltd., Company is considering investing in a project, requiring a capital outlay of Rs.2,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken at 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods.

- Pay- back method
- Rate of Return on Original Investment
- Rate of Return on Average Investment
- Discounted cash flow method, taking cost of capital at 10%
- Excess Present Value Index.

Cont...

14. Company X and company Y are in the same risk class and identical in all respects except that company uses debt. While company Y does not. Levered company has Rs. 9 lakh debentures, carrying 10% rate of interest. Both companies earn 20% before interest and taxes on their total assets of Rs. 15 lakh. Assume perfect capital markets, tax rate of 50% and capitalisation rate of 15% for an all equity company. Ascertain the value of both companies under NI and NOI approach.

15. Godrej Company sells goods in the home market and earns a gross profit of 20% on sales. It annual figures are as follows:

	Rs.
Sales	3,00,000
Materials used	1,08,000
Wages	96,000
Manufacturing expenses	1,20,000
Administrative expenses	30,000
Depreciation	12,000
Selling expenses	18,000
Income tax payable in two instalments of which one falls in the next year	30,000

Additional Information:

- Credit given by suppliers – 2 Months
- Credit allowed to customers – 1 month
- Lag in payment of wages – ½ Month
- Lag in payment of administrative expenses – 1 month
- Selling expenses are paid quarterly in advance
- Raw materials and finished goods are in stock for 1 month.
- Cash balance estimated to be maintained at Rs.30,000

You are required to prepare a statement of working capital requirements.

Z-Z-Z

END