

PSG COLLEGE OF ARTS & SCIENCE  
(AUTONOMOUS)

BCom DEGREE EXAMINATION DECEMBER 2024  
(Fifth Semester)

Branch – COMMERCE

**MAJOR ELECTIVE COURSE – I : 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. Financial management is
  - (i) A science
  - (ii) An art
  - (iii) Science and art
  - (iv) None of these
2. Time value of money means
  - (i) money valued time
  - (ii) time taken to give money
  - (iii) current money value
  - (iv) the value of a unit of money is different in different time period
3. ----- is the rate of return payable on debt
  - (i) Cost of equity
  - (ii) Cost of debt
  - (iii) Cost of capital
  - (iv) Retained earnings
4. ----- is the ratio of net operating income before fixed charges to net operating income after Fixed charges
  - (i) Financial leverage
  - (ii) Operating leverage
  - (iii) Combined leverage
  - (iv) None of these
5. When the policy concerning quantum of profits to be distributed as dividend is
  - (i) dividend policy
  - (ii) financial policy
  - (iii) investment policy
  - (iv) monetary policy

**SECTION - B (15 Marks)**

Answer ALL Questions

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

- 6 a. Summarise the objectives of financial management.  
OR  
b. Outline the functional areas of financial management.
- 7 a. Calculate the compound value of Rs. 10,000 at the end of 3 years at 12% rate of interest when interest is calculated on (a) yearly basis (b) quarterly basis  
OR  
b. Narrate the importance of Capital Budgeting.
- 8 a. Sri Ganesh Industries Ltd issues 5000 12% debentures of Rs. 100 each at par. The tax rate is 40%. Calculate before tax and after tax cost of debt.  
OR  
b. A Company issues 10,000 10% Preference shares of Rs. 100 each redeemable after 10 years at a premium of 5%. The cost of issue is Rs. 2 per share. Calculate the cost of preference capital.
- 9 a. A company has earnings before interest and taxes of Rs. 1,00,000. It expects a return on its investment at a rate of 12.5 %. You are required to calculate the total value of the firm according to the Miller-Modigliani theory.  
OR

Cont...

b. Calculate operating and financial leverage from the following particulars.

Units sold – 5,000;                      Selling price p.u. Rs.30;  
 Variable cost p.u. Rs.20;              EBIT Rs.30,000;  
 10% public debt Rs.1,00,000

10 .a. Following information is given about materials.

Annual usage = Rs.2,00,000  
 Cost of placing and receiving one order : Rs.80  
 Annual carrying cost : 10 % of inventory value  
 Calculate the economic order quantity.

OR

b. Joy Ltd. earns Rs. 5 per share. The company is capitalized at a rate of 10% and has a return on investment of 18%. According to Walter's formula, what should be the price per share at 25% dividend pay-out ratio?

### SECTION -C (30 Marks)

Answer any **Three** questions

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

11. Discuss in detail, the various functions of Financial Management.

12. Project X initially costs Rs. 25,000. It generates the following cash inflows:

Year	Cash inflows	Present Value of Re. 1 at 10 %
1	Rs. 9,000	0.909
2	Rs. 8,000	0.826
3	Rs. 7,000	0.751
4	Rs. 6,000	0.683
5	Rs. 5,000	0.621

Taking the cut – off rate as 10%, suggest whether the project should be accepted or not.

13. Discuss & Explore of cost of capital importance.

14. Moon Ltd . and Stat Ltd. have provided you with the following information.

	Moon Ltd.	Star Ltd
Sales (units)	20,000	20,000
Price per unit	Rs.50	Rs.50
Variable cost per unit	Rs.20	Rs. 25
Fixed operating cost	Rs. 4,00,000	Rs. 3,00,000
Fixed financing cost	Rs. 1,00,000	Rs. 50,000

Calculate Operating, Financial, Combined Leverage and which firm do you consider to be more risky and why?

15 . A and B who want to buy a business seek your advice about the average working capital requirements in the first year's trading. The following estimates are available and you are asked to add 10% to allow for contingencies:

- i) Average amount locked up in stocks:                      Rs.  
     Stock of finished products and work-in-progress              5,000  
     Stock of stores, materials, etc                                      8,000
- ii) Average credit given:  
     Local sales -2 weeks' credit                                      78,000  
     Outside the State -6 weeks' credit                              3,12,000
- iii) Time available for Payment:  
     For purchases -4 weeks    96,000  
     For wages -2 weeks    2,60,000

Calculate the average amount of working capital required. Give details of your workings.

Z-Z-Z      END