23BSB313N/ 23BSB313

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BVoc DEGREE EXAMINATION DECEMBER 2024
(Third Semester)

Branch – **(BANKING, STOCK & INSURANCE)**

FINANCIAL MANAGEMENT

Time: Three Hours Maximum: 75 Marks

SECTION-A (10 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (10 × 1 = 10)

Module No.	Question No.	Question	K Level	CO
1	1	What is the primary objective of financial management? a).Profit Maximization b).Wealth Maximization c).Cost Minimization d). Revenue Maximization	K1	CO1
	2	Interpret Financial management focuses on which of the following decisions? a). Investment, Financing, Dividend b). Marketing, Sales, Distribution c). Research, Development, Expansion d). Production, Quality Control, Customer Service	K2	CO1
2	3	Which of the following methods is commonly used in capital budgeting to evaluate projects? a). Current Ratio b). Net Present Value (NPV) c). Debt-Equity Ratio d). Gross Profit Margin	K1	CO2
	4	Show which capital budgeting technique considers the time value of money? a). Internal Rate of Return (IRR) b). Accounting Rate of Return (ARR) c). Payback Period d). Profit Margin Ratio	K2	CO2
3	5	Which of the following is a component of the cost of capital? a). Sales revenue b). Cost of debt c). Gross profit d). Accounts receivable	K1	CO3
	6	Explain in which model is commonly used to calculate the cost of equity? a). Current Ratio Model b). Net Present Value Model c). Capital Asset Pricing Model (CAPM) d). Quick Ratio Model	K2	CO3
4	7	Which type of leverage is associated with the use of debt in financing? a). Operating leverage b). Financial leverage c). Combined leverage d). Working capital leverage	K1	CO4
	8	Interpret in what does EPS stand for in financial analysis? a). Equity Per Share b). Earnings Per Share c). Expenses Per Stock d). Estimated Profit Share	K2	CO4
5	9	What is working capital? a). The total fixed assets of a company b). The difference between current assets and current liabilities c). The company's net profit d). The total sales revenue	K1	CO5

Cont...

<table>
<tr><td></td><td>10</td><td>Which of the following is a key objective of working capital management?
a).Maximizing profits b).Ensuring liquidity to meet short-term obligations c).Increasing long-term assets d).Reducing shareholder equity</td><td>K2</td><td>CO5</td></tr>
</table>

SECTION - B (35 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** Marks (5 × 7 = 35)

<table>
<tr><th>Module No.</th><th>Question No.</th><th>Question</th><th>K Level</th><th>CO</th></tr>
<tr><td rowspan="3">1</td><td>11.a.</td><td>Explain the objectives of Financial Management.</td><td rowspan="3">K2</td><td rowspan="3">CO1</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>11.b.</td><td>Explain the difference between profit maximization and wealth maximization as objectives of financial management.</td></tr>
<tr><td rowspan="3">2</td><td>12.a.</td><td>Identify A project costs Rs.1,00,000 and yields an annual cash inflow of Rs.20,000 for 7 years. Calculate payback period.</td><td rowspan="3">K3</td><td rowspan="3">CO2</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>12.b.</td><td>To Solve the Project X initially costs Rs.25,000. It generates the following cash inflows:
<table>
<tr><th>Year</th><th>Cash inflow</th><th>Present value of Re.1 at 10%</th></tr>
<tr><td>1</td><td>Rs.9,000</td><td>0.909</td></tr>
<tr><td>2</td><td>Rs.8,000</td><td>0.826</td></tr>
<tr><td>3</td><td>Rs.7,000</td><td>0.751</td></tr>
<tr><td>4</td><td>Rs.6,000</td><td>0.683</td></tr>
<tr><td>5</td><td>Rs.5,000</td><td>0.621</td></tr>
</table>
Taking the cut-off rate as 10% , suggest whether the project should be accepted or not.</td></tr>
<tr><td rowspan="3">3</td><td>13.a.</td><td>Sri Ganesh Industries Ltd., issues 5,000 12% debentures of Rs.100 each at par. Calculate before and after tax cost of debt.</td><td rowspan="3">K4</td><td rowspan="3">CO3</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>13.b.</td><td>Analyse a company's cost of equity capital (Ke) is 15%. The average tax rate of shareholders is 40% and the brokerage cost for purchase of securities is 2%. Calculate the cost of retained earnings.</td></tr>
<tr><td rowspan="2">4</td><td>14.a.</td><td>Moon ltd., and Star ltd., has provided you with the following informations.
<table>
<tr><th></th><th>Moon ltd</th><th>Star ltd</th></tr>
<tr><td>Sales (in units)</td><td>20,000</td><td>20,000</td></tr>
<tr><td>Price per unit</td><td>Rs.50</td><td>Rs.50</td></tr>
<tr><td>Variable cost per unit</td><td>Rs.20</td><td>Rs.25</td></tr>
<tr><td>Fixed operating cost</td><td>Rs.4,00,000</td><td>Rs.3,00,000</td></tr>
<tr><td>Fixed financing cost</td><td>Rs.1,00,000</td><td>Rs.50,000</td></tr>
<tr><td colspan="3">Which firm do you consider to be more risky and why?</td></tr>
</table></td><td rowspan="2">K5</td><td rowspan="2">CO4</td></tr>
<tr><td colspan="2">(OR)</td></tr>
</table>

<table>
<tr><td></td><td>14.b.</td><td>Explain the term leverage. What are its types?</td><td>K5</td><td>CO4</td></tr>
<tr><td rowspan="3">5</td><td>15.a.</td><td>Peerless ltd., is engaged in customer retaining. You are required to forecast their working capital requirements from the following information.
<table>
<tr><td>Projected annual sales</td><td>Rs.6,50,000</td></tr>
<tr><td>% of N.P. to cost of sales</td><td>25%</td></tr>
<tr><td>Average credit allowed to debtors</td><td>10 weeks</td></tr>
<tr><td>Average credit allowed by creditors</td><td>4 weeks</td></tr>
<tr><td>Average stock carrying (in terms of sales requirement)</td><td>8 weeks</td></tr>
<tr><td colspan="2">Add: 20% to allow for contingencies.</td></tr>
</table>
</td><td rowspan="3">K6</td><td rowspan="3">CO5</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>15.b.</td><td>Discuss the different sources of working capital available to the firm.</td></tr>
</table>

SECTION -C (30 Marks)

Answer **ANY THREE** questions

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

<table>
<tr><th>Module No.</th><th>Question No.</th><th>Question</th><th>K Level</th><th>CO</th></tr>
<tr><td>1</td><td>16</td><td>Explain in detail, the functions of financial management.</td><td>K2</td><td>CO1</td></tr>
<tr><td>2</td><td>17</td><td>Initial investment Rs.60,000
Life of the assets 4 years
Estimate net annual cash flows:
<table>
<tr><td>I Year</td><td>Rs.15,000</td></tr>
<tr><td>II Year</td><td>Rs.20,000</td></tr>
<tr><td>III Year</td><td>Rs.30,000</td></tr>
<tr><td>IV Year</td><td></td></tr>
<tr><td colspan="2">Calculate IRR (Internal rate of return)</td></tr>
</table>
Note: The following table gives the present value of Re.1 due in 'n' number of years.
<table>
<tr><th>Year</th><th>P.V. Factor at 10%</th><th>P.V. Factor at 12%</th><th>P.V. Factor at 14%</th><th>P.V. Factor at 15%</th></tr>
<tr><td>1</td><td>0.909</td><td>0.892</td><td>0.877</td><td>0.869</td></tr>
<tr><td>2</td><td>0.826</td><td>0.797</td><td>0.769</td><td>0.756</td></tr>
<tr><td>3</td><td>0.751</td><td>0.711</td><td>0.674</td><td>0.657</td></tr>
<tr><td>4</td><td>0.683</td><td>0.635</td><td>0.592</td><td>0.571</td></tr>
</table>
</td><td>K3</td><td>CO2</td></tr>
<tr><td>3</td><td>18</td><td>The following items have been taken from the balance sheet of Maruti Ltd., as on 31st March, 2007.
Paid up capital:
<table>
<tr><td></td><td>Rs.</td></tr>
<tr><td>2,00,000 shares of Rs.10 each</td><td>20,00,000</td></tr>
<tr><td>Reserve and surplus</td><td>30,00,000</td></tr>
<tr><td>Loans:</td><td></td></tr>
<tr><td>12% Non-convertible debentures</td><td>10,00,000</td></tr>
<tr><td>10% Institutional loans</td><td>40,00,000</td></tr>
</table>
</td><td>K4</td><td>CO3</td></tr>
</table>

<table>
<tr>
<td>3</td>
<td>18</td>
<td>Other relevant information:
<table>
<tr><th>Year ended 31st March</th><th>Dividend per share Rs.</th><th>EPS Rs.</th><th>Average market price</th></tr>
<tr><td>2005</td><td>2.00</td><td>4.00</td><td>24</td></tr>
<tr><td>2006</td><td>2.50</td><td>5.00</td><td>30</td></tr>
<tr><td>2007</td><td>3.00</td><td>6.00</td><td>40</td></tr>
</table>
Calculate the weighted average cost of capital. Use book values as weights and Earnings/Price ratio as the basis for cost of equity. Assume a tax rate of 50%.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>19</td>
<td>Alpha company ltd., has an all equity capital structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.30 lakhs to finance a programme of expansion.
Three alternative methods of financing are under consideration.
i. Issue of 30,000 new shares of Rs.100 each.
ii. Issue of Rs.30,000 8% debentures of Rs.100 each.
iii. Issue of 30,000 8% preference shares of Rs.100 each.
The company's expected earnings before interest and taxes (EBIT) is Rs.10 lakhs. Determine the earnings per share in each alternative assuming a corporate tax rate of 50 per cent. Which alternative is best and why?</td>
<td>K5</td>
<td>CO4</td>
</tr>
<tr>
<td>5</td>
<td>20</td>
<td>Briefly discuss the need or object of working capital.</td>
<td>K6</td>
<td>CO5</td>
</tr>
</table>

Z-Z-Z END