

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BVoc DEGREE EXAMINATION DECEMBER 2022
(Third Semester)

Branch - COMMERCE (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 What is the primary goal of financial management?
(i) To minimise the risk (ii) To maximise the owner's wealth
(iii) To maximise the return (iv) To raise profit
- 2 Which of the following represents the amount of time that it takes for a capital budgeting project to recover its initial cost?
(i) Maturity period (ii) Payback period
(iii) Redemption period (iv) Investment period
- 3 Which of the following sources of funds is related to Implicit Cost of Capital?
(i) Equity Share Capital (ii) Preference Share Capital
(iii) Debentures (iv) Retained earnings
- 4 In NOI approach, which one of the following is constant?
(i) Cost of Equity
(ii) Cost of Debt
(iii) Overall cost of capital (WACC) & k_d
(iv) K_e and K_d
- 5 Fixed working capital is generally financed by _____.
(i) By long term capital fund (ii) By government aid
(iii) By internal financing (iv) By short term loans from banks

SECTION - B (15 Marks)

Answer ALL Questions

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

- 6 a Discuss the objectives of financial management.
OR
b Explain the factors influencing financial decisions.
- 7 a A company wants to buy a machine. There are two alternative models A and B available. Prepare a statement of profitability and suggest the suitable machine using payback period method:

Particulars	Machine A	Machine B
Estimated life	4 years	5 years
	Rs.	Rs.
Cost of machine	5,000	60,000
Estimated savings in scrap	18,000	19,000
Estimated savings in labour	8,000	6,000
Additional cost of maintenance	2,000	2,000
Tax	50%	50%
Depreciation : Fixed Percentage		

OR

- b Illustrate the capital budgeting process.

Cont...

- 8 a State the significance of cost of capital.
OR
b A company issued 10,000, 10% debentures of Rs. 100 each at par on 1.4.2012 to be matured on 1.4.2022. The company wants to know the cost of its existing debt on 1.4.2017 when the market price of the debentures is Rs. 80. Compute the cost of existing debentures assuming 35% tax rate.
- 9 a State the theories of capital structure.
OR
b Following information is taken from the books of a company.
- | | |
|------------------|-----------------|
| Selling Price | Rs. 28 per unit |
| Variable cost | Rs. 18 per unit |
| Break even point | 4,000 units |
- Prepare the operating and financial leverages for
a) 5,000 units of output and b) 6,000 units of output.
- 10 a What are the factors affecting the working capital? Explain.
OR
b Meraz Ltd., is engaged in large scale customer retailing. From the following information, you are required to forecast its working capital requirements for the year 2005-06.

	Rs.
Projected annual sales	65 lkhs
Percentage of net profit on cost of sales	20%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks
Add 10% to computed figures to allow for contingencies.	

SECTION -C (30 Marks)

Answer ALL Questions
ALL questions carry EQUAL Marks

(5x6=30)

- 11 a Deliberate the scope of financial management.
OR
b Enumerate the process of financial management.
- 12 a Enumerate the methods of equity share capital.
OR
b A company wants to buy a machine. There are two alternative models A and B available. Prepare a statement of profitability and suggest the suitable machine using payback period method:

Particulars	Machine A	Machine B
Estimated life(yrs)	4	5
Cost of machine (Rs.)	50,000	60,000
Estimated savings in scrap (Rs.)	18,000	19,000
Estimated savings in labour (Rs.)	8,000	6,000
Additional cost of maintenance(Rs.)	2,000	2,000
Tax	50%	50%
Depreciation: Fixed percentage		

Cont...

13 a The following details are provided by the GPS Limited:

- Equity Share Capital Rs. 65,00,000
- 12% Preference Share Capital Rs.12,00,000
- 15% Redeemable Debentures Rs. 20,00,000
- 10% Convertible Debentures Rs. 8,00,000

The cost of equity capital for the company is 16.30% and Income Tax rate for the company is 30%. You are required to calculate the Weighted Average Cost of Capital (WACC) of the company.

OR

b The following is the capital structure of a firm:

Sources of finance	Amount (Rs.)	C/C
11% Preference share capital	1,00,000	11%
Equity share capital	4,50,000	18%
Retained earnings	1,50,000	18%
16% Debt	3,00,000	8%

Calculate the weighted average cost of capital of the firm, based on the book value weight.

14 a Elaborate the various types of leverage.

OR

b The following projections have been given in respect of companies X and Y

Particulars	Company X	Company Y
Volume of output and sales	80,000 units	1,00,000 units
Variable cost per unit	Rs. 4	Rs. 3
Fixed cost	Rs. 2,40,000	Rs. 2,50,000
Interest burden on debt	Rs. 1,20,000	Rs. 50,000
Selling price per unit	Rs. 10	Rs. 8

On the basis of above information, calculate (a) Operating leverage (b) Financial leverage (c) Combined leverage (d) Operating break-even point and (e) Financial break even point.

15 a The following information has been supplied by a borrower:

- i. Expected level of production 3,00,000 units
- ii. Raw materials to remain in stock on an average 2 months
- iii. Processing period for each unit of product 1 month
- iv. Finished goods remain in stock on an average 3 months
- v. Credit allowed to the customers from the date of dispatch : 3 months
- vi. Expected ratios of cost to selling price:
 - a. Raw Materials 60%
 - b. Direct Wages 10%
 - c. Overheads 20%
- vii. Selling price per unit Rs.10
- viii. Expected margin on sales 10%

You are required to estimate the working capital requirements of the borrower.

OR

b Elaborate the sources of working capital.

Z-Z-Z

END