

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)
BVoc DEGREE EXAMINATION MAY 2022
(Third Semester)

Branch – **BANKING, STOCK AND INSURANCE**

FINANCIAL MANAGEMENT

Time: Three Hours

Maximum: 75 Marks

SECTION-A (10 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** marks (10 x 1 = 10)

1. The appropriate objective of an enterprise is
 - (i) Maximization of sales
 - (ii) Maximization of profit
 - (iii) Maximization of owner wealth
 - (iv) Raising of funds
2. Investment decision deals with
 - (i) Investment in capital assets
 - (ii) Investment in current assets
 - (iii) Both(i)and(ii)
 - (iv) None of these
3. The period required to recover the investment in the project is called
 - (i) Net present value
 - (ii) Internal rate of return
 - (iii) Accounting rate of return
 - (iv) Pay back method
4. IRR is the rate of return at which
 - (i) NPV is nil
 - (ii) NPV is positive
 - (iii) NPV is negative
 - (iv) None of these
5. Overall cost of capital denoted as -----
 - (i) K_1
 - (ii) K_d
 - (iii) K_p
 - (iv) K_o
6. The cost of retained earnings is slightly lower than
 - (i) Cost of debt
 - (ii) Cost of preference capital
 - (iii) Cost of equity
 - (iv) Overall cost of capital
7. Financial leverage is also known
 - (i) Trading on equity
 - (ii) Trading on enquiry
 - (iii) Negative financial leverage
 - (iv) None of these
8. According to M.M Theory the firms can be classified into ----- risk classes
 - (i) Homogeneous
 - (ii) Heterogeneous
 - (iii) Financial
 - (iv) Operating
9. Capital requires for short – term operation is known as
 - (i) Capitalization
 - (ii) Working capital
 - (iii) Short term debt
 - (iv) None of these
10. The most liquid asset is
 - (i) Debtors
 - (ii) Bank balance
 - (iii) Cash
 - (iv) None of the these

SECTION - B (35 Marks)

Answer **ALL** Questions

ALL Questions Carry **EQUAL** Marks (5 x 7 = 35)

11. (a) State the nature of Financial Management.
(OR)
(b) What are the factors that influencing financial decisions?
12. (a) Bring out the importance of Capital Budgeting.
(OR)
(b) A Project cost Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12 % pay but before tax of 50 %. Calculate the pay back period.

Cont...

13.(a) Briefly explain the different methods of calculating the Cost of Equity Capital.

(OR)

(b) A company issue 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.

14.(a) What do you mean by Leverage ? Explain its types.

(OR)

(b) 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 find out the total value of the firm according to the Miller – Modigliani theory.

15.(a) Briefly explain the various sources of working capital.

(OR)

(b) From the following information ,find out economic order quantity.

Annual usage -10,000 units

Cost of placing and receiving one order Rs. 50.

Cost of material per unit Rs. 25.

Annual carrying cost of one unit : 10 % of inventory

SECTION - C (30 Marks)

Answer any **THREE** Questions

ALL Questions Carry **EQUAL** Marks (3 x 10 = 30)

16. What are the Functional Areas of Financial Management? Explain it.

17. Project X initially cost of Rs. 25,000. It generates the following cash inflows:

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

Taking cut-off rates as 10 %, suggest the project should be accept or not.

18. A Company issues 10% irredeemable debentures of Rs . 1,00,000. The company is in 55% tax bracket. Calculate the cost of debt (before as well as after tax) if the debentures are issued at (i) par (ii) 10 % discount, and (iii) 10 % premium.

19. 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

Find out Operating, Financial, Combined Leverage and Which firm do you consider to be more risky and why?

20. Explain the factors which determine the Working Capital needs of a firm.