PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2019
(Sixth Semester)

Branch – **COMMERCE (RETAIL MARKETING)**

FINANCIAL MANAGEMENT

Time : Three Hours — Maximum : 75 Marks

SECTION-A (20 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (10 x 2 = 20)

1 What do you mean by financial management?
2 What is meant by dividend decision?
3 What do you mean by capital budgeting?
4 State the meaning of time value of money.
5 State the meaning of risk.
6 What do you mean by capital structure?
7 What do you mean by financial leverage? – Give the formula.
8 State any two sources or working capital.
9 What do you mean by receivable management?
10 State the meaning of inventory management.

SECTION - B (25 Marks)
Answer **ALL** Questions
ALL Questions Carry **EQUAL** Marks (5 x 5 = 25)

11 a Explain the basic objectives of financial management.

OR

b Explain the importance of financial management.

12 a Explain the various kinds of capital budgeting decisions.

OR

b Project Y has an initial investment of Rs. 5,00,000. Its cash flows for 5 years are Rs. 1,50,000, Rs. 1,80,000, Rs. 1,50,000, Rs. 1,32,000 and Rs. 1,20,000. Determine the payback period.

13 a Sakthi Ltd. issues 20,000 8% debentures of Rs. 100 each on 1st April 2009. The cost of issue was Rs. 50,000. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax) if they were issued (a) at par; (b) at a premium of 10%.

OR

b Sandhiya Ltd., has issued 12,000 12% preference shares of Rs. 100 each. The shares are redeemable after 10 years at a premium of 10% floating costs are 4%. Calculate the effectives cost of redeemable preference share capital.

14 a The following projections have been given in respect of O bright Co:

Output	3,00,000 units
Fixed cost (Rs.)	3,50,000
Unit variable cost (Rs.)	1
Interest expenses (Rs.)	25,000
Unit selling price (Rs.)	3

On the basis of above information, calculate (a) Operative leverage; (b) Financial leverage, (c) Combined leverage.

OR

Cont ...

14 b ABC Ltd had EBIT of Rs. 1,60,000. Its capital structure consists of the following securities:

10% debentures	Rs. 5,00,000
12% preference shares	Rs. 1,00,000
Equity shares of Rs. 100	Rs. 4,00,000

The company is in the 55% tax bracket. You are required to determine the company's EPS.

15 a The annual demand for a product is 6,400 units. The unit cost is Rs. 6 and inventory carrying cost per unit per annum is 25% of the average inventory value. If the cost of procurement is Rs. 75, determine (a) EOQ and (b) Number of orders per annum.

OR

b What do you mean by cash management? What are the objectives of cash management?

SECTION - C (30 Marks)

Answer any **THREE** Questions

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

16 Explain the various organizational finance function.

17 A company is considering an investment proposal to install new milling controls. The project will cost Rs. 50,000. The facility has a life expectancy of 5 years and no salvage value. The company's tax rate is 55%. The firm uses straight line method of depreciation. The estimated profits before depreciation from the proposed investment proposal are as follows:

Year:	1	2	3	4	5
Profit (Rs.)	10,000	11,000	14,000	15,000	25,000

Compute the following:

a) Payback period
b) Average rate of return
c) Net present value at 10% discount rate.

18 The following figures relate to two companies. You are required to (a) calculate the operating, financial and combined leverages of the two companies.

	X Ltd. Rs.	Y Ltd. Rs.
Sales	4,00,000	8,00,000
Less: variable cost	1,60,000	2,40,000
Contribution	2,40,000	5,60,000
Less: Fixed cost	1,28,000	2,80,000
Operating profit (EBIT)	1,12,000	2,80,000
Less: Interest	48,000	1,20,000
Profit before tax	64,000	1,60,000

19 Two firms R and S are identical except in the method of financing. Firm R has no debt, while firm S has Rs. 3,00,000 8% debentures in financing. Both the firms have a net operating income (EBIT) of Rs. 1,20,000 and equity capitalization rate of 12%. The corporate tax rate is 35%. Calculate the value of the firm using MM approach.

20 Explain the factors that determines the working capital requirement.