

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)
BCom DEGREE EXAMINATION DECEMBER 2018
(Fourth Semester)

Branch - e-COMMERCE

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 Define financial management,
- 2 What do you meant by finance function?
- 3 Give the meaning of cut off rate.
- 4 Explain the concept of time value of money.
- 5 Define cost of capital.
- 6 What is decision three analysis of risk in capital budgeting?
- 7 Whatis operating leverage?
- 8 Mention the types of lease financing,
- 9 Whatis working capital?
- 10 Whatis inventory management?

SECTION - B (25 Marks)

Answer ALL Questions

ALL Questions Carry EQUAL Marks (5 x 5 = 25)

- 11 a Explain the nature of financial management.
OR
b Describe the objectives of financial management.
- 12 a Mr. A has to receive Rs.5,000per year for 6 years. Calculate the present value of the annuity assuming that he can earn interest on his investment at 12% p.a.
OR
b A project cost Rs.5,00,000 and yields annually a profit of Rs. 80,000 after depreciation at 12% p.a. but before tax of 50%. Calculate the pay back period.
- 13 a 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.
OR
b A company issues 5,000 12% debentures of Rs. 100 each at a discount of 5% . The commission payable to underwriters and brokers is Rs.25,000. The debentures are redeemable after 5 years. Compute the after tax cost of debt assuming a tax rate of 50%.
- 14 a Compute Operating leverage from the following:

Sales	Rs. 10,50,000
Variable cost	Rs. 7,67,000
Fixed cost	Rs. 75,000
EBIT	Rs. 2,08,000
Taxes	Rs. 29,400

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%. Find the total value of the firm according to MM theory.

Cont...

- 15 a Prepare an estimate of working capital requirement from the following information of a trading concern:
- | | |
|--|------------------|
| Projected annual sales | - 1,00,000 units |
| Selling price | - Rs.8 per unit |
| Percentage of net profit on cost of sales | - 25% |
| Average credit period allowed to debtors | - 8weeks |
| Average credit period allowed to creditors | - 4weeks |
| Average stock holding terms of sales requirement | - 12weeks |
- Add : 10% to computed figures to allow for contingencies.
- OR
- b Find out economic order quantity from the following :
- | | |
|---|-------------------------|
| Annual usage | - Rs.2,00,000 |
| Cost of placing and receiving one order | - R.s.80 |
| Annual carrying cost | -10% of inventory value |

SECTION - C (30 Marks)

Answer any **THREE** Questions

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

- 16 Explain the functional areas of financial management.
- 17 A Ltd. Is producing articles mostly by manual labour and is considering to replace it by a new machine. There are two alternative models X and Y of the new machine. Prepare a statement of profitability showing the pay back period from the following information:

Particulars	Machine X	Machine Y
Estimated life of machine	4 years	5 years
Cost of machine	Rs.90,000	Rs. 1,80,000
Estimated savings in scrap	5,000	8,000
Estimated savings in direct wages	60,000	80,000
Additional cost of maintenance	8,000	10,000
Additional cost of supervision	12,000	18,000

- 18 Calculate the weighted average cost of capital (before tax and after tax) from the following information. Assume that the tax rate is 55%.

Particulars	S Proportion (%)	Before tax cost of capital (%)
Equity capital	25	24.44
Preference	10	27.29
Debt capital	50	7.99 !
Retained earnings	15	18.33

- 19 A firm has sales of Rs20,00,000, variable cost of Rs. 14,00,000 and fixed costs of Rs.4,00,000 and debt of Rs. 10,00,000 at 10% rate of interest. Compute operating ,, financial and combined leverage.
- 20 Calculate Debtors turnover ratio and Average collection period from the following by considering 360 days in a year and all returns are from credit sales.
- | | |
|---|--------------------|
| Cash sales during the year | - Rs. 1,50,000 |
| Credit sales during the year | - Rs. 2,70,000 |
| Returns inward | - Rs. 20,000 |
| Trade debtors in the beginning | - Rs. 55,000 |
| Trade debtors in the end | - Rs. 45,000 |
| Provision for bad and doubtful debts | - Rs. 5.000 |