

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)
BVoc DEGREE EXAMINATION MAY 2024
(Third Semester)

Branch – 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. Basic objective of Financial Management is maximization of
 - i) Profits
 - ii) Shareholders wealth
 - iii) Sales
 - iv) Reserves
2. The decision rule under Net Present Value method is
 - i) NPV > 0 accept
 - ii) NPV < 0 reject
 - iii) both (i) and (ii)
 - iv) NPV = 0 accept
3. Cost of each component of capital is termed as
 - i) specific cost
 - ii) weighted cost
 - iii) marginal cost
 - iv) overall cost
4. When a firm has high operating leverage then it is a
 - i) very risky situation
 - ii) no risky situation
 - iii) less risky situation
 - iv) Moderate risky situation
5. Set up cost is like a
 - i) variable cost
 - ii) semi variable cost
 - iii) fixed cost
 - iv) semi fixed cost

SECTION - B (15 Marks)

Answer ALL Questions

ALL Questions Carry EQUAL Marks

(5 x 3 = 15)

6. a) State the significance of financial management.
(OR)
b) Explain the scope of financial management.
7. a) A chemical company is considering investing in a project that costs Rs.5,00,000. The estimated salvage value is zero. Tax rate is 55%. The company uses straight line depreciation and the proposed project has cash flows before tax (CFBT) as follows:

Year	1	2	3	4	5
CFBT	1,00,000	1,00,000	1,50,000	1,50,000	2,50,000

(OR)

- b) What is the need and significance of capital budgeting?
8. a) A firm's return available to equity shareholders is 15%, the average tax rate of shareholders is 40% and it is expected that 2% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings?

(OR)

- b) Explain the concept of cost of Capital?
9. a) Distinguish between operating and financial leverage.
(OR)

- b) The following information relate to two companies:

Company	Sales	Variable cost	Fixed cost	Interest
P Ltd	Rs. 5,00,000	Rs. 2,00,000	Rs. 1,50,000	Rs. 50,000
Q Ltd	Rs. 10,00,000	Rs. 3,00,000	Rs. 4,00,000	Rs. 1,00,000

You are required to calculate the various leverages and comment upon it.

Cont...

10. a) Calculate maximum, minimum and reorder level from the following data.

Re-order quantity	1500 units
Re-order period	4 to 6 weeks
Maximum consumption	400 units per week
Normal consumption	300 units per week
Minimum consumption	250 units per week

(OR)

b) What do you understand by working capital management?

SECTION -C (30 Marks)

Answer any **Three** questions

ALL questions carry **EQUAL** Marks

(3 x 10 = 30)

11. Explain the responsibility of financial management.
12. A plastic manufacturer has under consideration the proposal of production of high quality plastic glasses. The necessary equipment to manufacture the glasses would cost Rs.1,00,000 and would last 5 years. The tax relevant rate of depreciation is 25% on written down value. There is no other asset in this block. The expected salvage value is Rs.10,000. The glasses can be sold at Rs.4 each. Regardless of the level of production, the manufacturer will incur cash cost of Rs.25,000 each year if the project is undertaken. The overhead costs allocated to this new line would be Rs.5,000. The variable costs are estimated at Rs.2 per glass. The manufacturer estimates it will sell about 75,000 glasses per year. The tax rate is 35%. Should the proposed equipment be purchased? Assume 20% cost of capital and additional working capital requirement Rs.50,000.
13. Discuss the merits and demerits of the weighted average cost of capital.
14. Calculate (a) the operating leverage (b) financial leverage and (c) combined leverage from the following data under situations I and II and financial plans A and B.
- Installed capacity 4000 units
 Actual production and sales 75 percent of the capacity
 Selling price Rs.30 per unit
 Variable cost Rs.15 per unit.
 Fixed cost : Under situation I – Rs.15,000
 Under situation II – Rs.20,000
- Capital structure:
- | | Financial Plan A | Financial Plan B |
|---------------------|------------------|------------------|
| Equity | Rs. 10,000 | Rs. 15,000 |
| Debt (20% Interest) | Rs. 10,000 | Rs. 5,000 |
| | Rs. 20,000 | Rs. 20,000 |
15. What is meant by stock levels? What are the various types of stock levels?

Z-Z-Z END