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Name.....

Reg. No.....

FIFTH SEMESTER (CBCSS—UG) DEGREE EXAMINATION NOVEMBER 2023

B.Com.

BCM 5B 11—FINANCE SPECIALIZATION II—FINANCIAL MANAGEMENT

(2019 Admission onwards)

e: Two Hours and a Half

Maximum : 80 Marks

Part A

Answer **all** *the questions.*

2 marks each, maximum 25 marks.

1. The operating leverage of ABC Ltd is 2. Compute the percentage change in EBIT, if sales are expected to decline by 15 %.
2. What do you mean by financial break-even point ?
3. If the operating leverage of company is 1, it indicates that there is no fixed cost. Do you agree ? Why ?
4. Define the term capital budgeting.
5. How do calculate the initial outlay of a project ?
6. What do you mean by net working capital ?
7. What is cash cycle ?
8. What is cash dividend ?
9. The EPS of a company is Rs. 4 and it distributed Rs. 1.20 to its shareholders. Compute pay-out ratio and retention ratio.
10. X Ltd. issued 10 % Rs. 10,00,000 12 % debentures of Rs. 100 each. Calculate the cost of debt if the issue is at 10 % premium with 5 % floatation cost. The corporate tax rate is 40 %.
11. What is wealth maximisation ?
12. Zero Coupon Bonds do not carry any interest. Do you agree ? If yes, how does it benefit the investors ?

Turn over

13. Calculate the future value of Rs. 1,00,000 at the end of 3 year at 12 %.

14. What is risk free rate ?

15. What do you mean by Certainty Equivalents Method of project evaluation ?

Part B

Answer **all** *the questions.*
5 marks each / maximum 35 marks.

16. Discuss the financing approaches to working capital management.

17. Explain the following terms.

    (a) NPV.

    (b) Payback period.

    (c) Depreciation Tax Shield.

    (d) Salvage.

    (e) Unconventional Projects.

18. Distinguish between capital structure and financial structure. Explain it with the help of a Balance Sheet.

19. A company expects to pay a dividend of Rs. 30. The company plans to issue 1,00,000 equity shares of Rs 100. The floatation cost is Rs. 2. Assuming a brokerage of 2 % and personal income tax rate of 20 %, compute the cost of retained earnings.

20. A project costs Rs. 25,000 and has a scrap value of Rs. 5,000 after 5 years. The profit before depreciation and taxes for the five year period are expected to be Rs. 5,000, Rs. 6,000, Rs. 7,000, Rs. 8,000 and Rs. 10,000 respectively. Assuming straight line depreciation and a tax rate of 50 %, calculate ARR.

21. Explain the motives of holding cash.

22. The current price of a company's share is Rs. 200. The company is expected to pay a dividend of Rs. 5 per share with an annual growth rate of 10 %. If an investor's required rate of return is 12 %, should he buy the share ?

23. Explain the significance of financial leverage.

Part C

Answer any **two** *questions from the following.*
Each question carries 10 *marks.*

Discuss important executive financial decisions.

Explain the various techniques of inventory management.

From the following information, you are required to prepare a statement of working capital requirements for a level of activity of 1, 56,000 units.

Particulars		*Per unit* (Rs.)
Raw materials	...	90
Direct Labour	...	40
Overheads	...	75
Profit	...	60
Selling price	...	265

Additional information :

(a) Raw materials in stock - 1 month.

(b) Finished goods in stock - 1 month.

(c) Materials are in process - 2 weeks.

(d) Credit period (suppliers) - 1 month.

(e) Credit period (customers) - 2 months.

(f) Lag in payment of wages - 1.5 weeks.

(g) Lag in payment of overheads - 1 month.

(h) Cash sales - 20 % of sales.

Cash balance required - Rs. 60,000.

27. A Ltd. is considering the replacement of an existing machine. Two options are available. The flows are given below :

Year	*Cash Inflows*		PV
	Machine A	*Machine B*	*Factor*
	(Rs.)	(Rs.)	@ 10 %
0 ...	(25,00,000)	(40,00,000)	1.00
1 ...	Nil	10,00,000	0.91
2 ...	5,00,000	14,00,000	0.83
3 ...	20,00,000	16,00,000	0.75
4 ...	14,00,000	17,00,000	0.68
5 ...	14,00,000	15,00,000	0.62

Find out NPV and PI.