

**FIFTH SEMESTER (CBCSS—UG) DEGREE EXAMINATION
NOVEMBER 2024**

B.Com.

BCM 5B 11—FINANCE SPECIALIZATION II—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Two Hours and a Half

Maximum : 80 Mar

Part A*Answer all the questions (2 marks each, maximum 25 marks).*

1. What is wealth maximisation ?
2. Zero Coupon Bonds do not carry any interest. Do you agree ? If yes, how does it benefit the investors ?
3. Calculate the future value of Rs. 1,00,000 at the end of 3 year at 12 %.
4. X Ltd issued 10 % Rs. 10,00,000 12 % debentures of Rs. 100 each. Calculate the cost of debt if the issue is at par with 5 % floatation cost. The corporate tax rate is 40 %.
5. What is risk free rate ?
6. How does taxation affect cost of debt ?
7. From the following information, compute combined leverage. EBIT - Rs. 1,20,000, Contribution - Rs. 4,00,000 and Interest Rs. 10,000.
8. What do you mean by operating leverage ?
9. What is capital rationing ?
10. How do you calculate the cash inflow of a project, if profit before depreciation and taxes are given ?
11. What do you mean by gross working capital ?
12. What is raw material conversion period ?

Turn over

13. What is RADR ?
14. The EPS of a company is Rs. 4 and it distributed Rs. 1.60 to its shareholders. Compute pay-out ratio and retention ratio.
15. What do you understand by credit policy ?

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. Explain the significance of financial leverage.
20. Calculate the level of EBIT at which the EPS indifference point between the following financing alternatives will occur.
- Equity share capital of Rs. 6,00,000 and 12% Debentures of Rs. 4,00,000.
- Or
- Equity share capital of Rs. 4,00,000, preference share capital of Rs. 2,00,000 and 12% Debentures of Rs. 4,00,000. Preference dividend is 14 %.
- Assume the corporate tax rate is 35 % and par value of equity share is Rs. 10 in each case.
21. The EPS of a company is Rs. 10. The shareholders expect a rate of return of 10%. The internal rate of return is 10 %. Using Walter's model.
- (a) What should be the optimum pay-out ratio ?
 - (b) What will be the market price, if the pay-out are : (i) 0 % ; and (ii) 80 %.

22. The following data is available.

Credit allowed by suppliers - 60 days, Credit period allowed by the firm - 120
Average collection period - 140 days, Average payment period - 70 days, Average
inventory - 170 days, Assume 360 days a year.

Calculate cash cycle and cash turnover.

23. Explain the motives of holding inventories.

Part C

Answer any **two** questions from the following.

Each question carries 10 marks.

24. Explain the objectives of financial management.
25. Discuss the dimensions of receivables management.
26. A Ltd is considering the replacement of an existing machine. Two options are available. The cash flows are given below.

Year	Cash Inflows		PV Factor @ 10 %
	Machine A (Rs.)	Machine B (Rs.)	
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.

Turn over

27. Assuming MM hypothesis, answer the following questions from the following data.

Number of equity shares—5,000

Capitalisation rate—20 %

Expected Dividend—Rs. 12

Current Market Price—Rs. 100

- (a) The firm has a net income of Rs. 1,00,000. Assuming that it pays dividend and makes investment of Rs. 2,00,000 ; how many new shares must be issued ?
- (b) What will be your answer, if dividends are not paid ?

(2 × 10 = 20 marks)