

(NO. OF PAGES: 4 )

(FOR THE CANDIDATES ADMITTED

21PCC205

DURING THE ACADEMIC YEAR 2021 ONLY

REG.NO.:

N.G.M.COLLEGE (AUTONOMOUS) : POLLACHI

END-OF-SEMESTER EXAMINATIONS: JULY-2022

M.COM.-CA

MAXIMUM MARKS: 70

II SEMESTER

TIME : 3 HOURS

**FINANCIAL MANAGEMENT**

SECTION - A

(10 X 1 = 10 MARKS)

**ANSWER THE FOLLOWING QUESTIONS.**

**MULTIPLE CHOICE QUESTIONS.**

(K1)

1. Financial decisions involve \_\_\_\_\_.

- a) Investment, financing and dividend decisions
- b) Investment, financing and sales decisions
- c) Financing, dividend and cash decisions
- d) Investment, financing and purchase decision

2. Cost of capital is the \_\_\_\_\_ rate of return expected by its investors.

- a) maximum
- b) minimum
- c) average
- d) normal

3. Formula to calculate Operating leverage is = \_\_\_\_\_.

$$\frac{\text{Operating profit}}{\text{Contribution}} = \frac{\text{Contribution}}{\text{Operating profit}}$$

a)  $\frac{\text{Operating profit}}{\text{Contribution}}$  b)  $\frac{\text{Contribution}}{\text{Operating profit}}$

$$\frac{\text{Contribution}}{\text{Sales}} = \frac{\text{Fixed cost}}{\text{P/V Ratio}}$$

c)  $\frac{\text{Contribution}}{\text{Sales}}$  d)  $\frac{\text{Fixed cost}}{\text{P/V Ratio}}$

4. The simplest capital budgeting technique is \_\_\_\_\_.

- a) Pay-back period method
- b) Net present value method
- c) Profitability index method
- d) Internal rate of return method

5. The gross working capital is a \_\_\_\_\_ concept.

- a) cost
- b) going concern
- c) business entity
- d) money measureme

**ANSWER THE FOLLOWING IN ONE (OR) TWO SENTENCES** (K2)

6. Define Financial Management.

7. Define Cost of Capital.

8. What are the assumptions of Net Operating Income approach?

9. Define Capital Budgeting.

10. List out the types of working capital.

(CONTD...2)

**SECTION – B****(5 X 4 = 20 MARKS)****ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. (K3)**

11. a) Describe the functional areas of financial management.

**(OR)**

b) Assess the significance of financial management.

12. a) Explain the significance of the cost of capital.

**(OR)**

b) List out the reasons for time preference of money.

13. a) (1) A Ltd expects a net operating income of Rs.1,20,000. It has Rs.6,00,000, 6% Debentures. The overall capitalization rate is 10%. Calculate the value of the firm and cost of equity according to the Net Operating Income Approach.

(2) What will be the value of the firm and cost of equity If the debenture debt is increased to Rs.9,00,000?

**(OR)**

b) The following figures relate to two companies:

	<b>P Ltd.</b>	<b>Q Ltd.</b>
	<b>(Rs. In Lakhs)</b>	
Sales	500	1,000
Variable cost	200	300
Contribution	300	700
Fixed cost	150	400
	150	300
Interest	50	100
Profit before tax	100	200

You are required to calculate the operating leverage, financial leverage and combined leverages for the two companies.

14. a) Calculate discounted pay-back period from the following information:

Cost of project- Rs.3,00,000

Life of the project – 5 years

Annual cash inflows-Rs.1,00,000

<b>Years:</b>	1	2	3	4	5
<b>PV factor at 10%:</b>	0.909	0.826	0.751	0.683	0.621

**(OR)**

b) The following are the cash inflows and outflows of a certain project.

<b>Year</b>	<b>Outflows (Rs.)</b>	<b>Inflows (Rs.)</b>
0	1,50,000	
1	30,000	30,000
2		30,000
3		50,000
4		60,000
5		40,000

The salvage value at the end of 5 years is Rs.40,000. Taking the cut off rate as 10%, calculate Net Present Value.

**(CONTD...3)**

The following table gives the present value of Rs.1 due in 'n' number of years.

Year	1	2	3	4	5
Present value at 10%	0.909	0.826	0.751	0.683	0.621

15. a) S & Co. sells goods for cash as well as on credit. The following particulars are extracted from their books of accounts for the year ending 31<sup>st</sup> December 2015.

	Rs.
Total Gross Sales – (included cash sales Rs.20,000)	1,00,000
Sales Returns	7,000
Total Debtors as on 31.12.2015	9,000
Bills Receivable as on 31.12.2015	2,000
Provision for doubtful debts as on 31.12.2015	1,000
Total Creditors as on 31.12.2015	10,000

Calculate the average collection period of debtors in days.

(OR)

b) From the following information, find out Economic Order Quantity.

Annual usage – 10,000 units  
 Cost of placing and receiving one order – Rs.50  
 Cost of materials per unit – Rs.25  
 Annual carrying cost of one unit – 10% of inventory value.

### SECTION - C

(4 X 10 = 40 MARKS)

#### ANSWER ANY FOUR OUT OF SIX QUESTIONS

(16<sup>th</sup> QUESTION IS COMPULSORY AND ANSWER ANY THREE QUESTIONS (FROM Qn. No : 17 to 21)

(K4 (Or) K5)

16. Briefly explain the role of financial manager.

17. From the following particulars relating to the capital structure of Blue Ltd., Calculate the overall cost of capital using a).Book value of weights and b).Market value of weights.

Sources of funds	Book value (Rs.)	Market value (Rs.)
Equity share capital	45,000	90,000
Retained Earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after-tax cost of different sources of finance is:

Equity share capital-14%
Retained Earnings-13%
Preference share capital-10%
Debentures-8%

18. Discuss the determinants of dividend policy of corporate enterprises.

(CONTD...4)

19. The following information relates to the Rose Ltd.

Earnings per share (EPS) – Rs.10

Cost of capital (k) – 10%

Rate of Return (r) – 15%

Determine the market price per share under the Gordon Model, if retention is  
a. 60% b. 40% c. 10%.

20. The following particulars relate to two machines producing identical products.

	Machine A	Machine B
Original cost	Rs.1,00,000	Rs. 1,50,000
Working life	5 years	5 years
<b>Profit before depreciation</b>		
I year	30,000	40,000
II year	15,000	45,000
III year	40,000	50,000
IV year	40,000	24,000
V year	35,000	71,000
Tax rate	50%	50%

- a. Calculate Rate on Investments.
- b. Calculate Average rate of return assuming that Machine A and B have scrap values of Rs.10,000 and Rs.20,000 respectively at the end of the 5<sup>th</sup> year.

21. From the following details, prepare an estimate of Working Capital of K Ltd.

	Average period of credit	Estimated for 1 <sup>st</sup> year (Rs.)
Purchase of materials	6 months	26,00,000
Wages	1 ½ weeks	19,50,000
Overheads:		
Rent and rates etc.	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Cash sales		2,00,000
Credit sales	3 months	60,00,000
Average amount of stock and WIP		4,00,000
Average amount of undrawn profits		3,00,000

Assume that all expenses and income were made at an even rate for the year.

