

N.G.M.COLLEGE (AUTONOMOUS): POLLACHI**END-OF-SEMESTER EXAMINATIONS: MAY – 2023****B.Com-PA****MAXIMUM MARKS: 70****IV SEMESTER****TIME: 3 HOURS****PART – III****FINANCIAL MANAGEMENT****SECTION – A****(10 X 1 = 10 MARKS)****ANSWER THE FOLLOWING QUESTIONS.****MULTIPLE CHOICE QUESTIONS.****(K1)**

1. The appropriate objective of an enterprise is
 - (a) Maximisation of sales
 - (b) Maximisation of owner's wealth
 - (c) Maximization of profits
 - (d) Maximization of debt
2. The capital structure of company is made _____ and _____ securities.
 - (a) Debt, Equity
 - (b) Preference, Equity
 - (c) Preference, Debt
 - (d) Short, Long-term
3. 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
4. Net working capital is the excess of _____ over _____.
 - (a) Total Assets, Total Liabilities
 - (b) Total Liabilities, Total Assets
 - (c) Current Liabilities, Current Assets
 - (d) Current Assets, Current Liabilities
5. Dividend policy of a firm affects both the long-term financing and _____.
 - (a) Shareholders wealth
 - (b) Partners wealth
 - (c) Owners wealth
 - (d) Public wealth

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

6. Define 'Financial Management'.
7. Explain the types of leverage.
8. Define 'Capital Budgeting'.
9. List the types of working capital.
10. Name the two main theories of dividend.

(CONTD.....2)

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

11. a) Explain the scope of financial management.
(OR)
b) Recall the objectives of financial management.

12. a) (1) A company expects a net operating income of Rs.1,00,000. It has Rs.5,00,000, 6% Debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization rate (cost of equity) according to the Net Operating Income Approach.
(2) If the debenture debt is increased to Rs.7,50,000. What will be the effect on the value of the firm and the equity capitalization rate?
(OR)

b) The following figures relate to two companies:

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

You are required to calculate the operating leverage, financial leverage, combined leverage.

13. a) What is pay - back period? What are its merits and demerits?
(OR)
b) The Alpha co. ltd is considering the purchase of a new machine. Two alternative Machine (A and B) have been suggested, each having an initial cost of Rs.4,00,000 and requiring Rs.20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be follows:

Year	Cash inflows	
	Machine - A	Machine - B
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on this basis, you are required to compare the profitability of the machine and state which alternative you consider financially preferable?

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%	0.91	0.83	0.75	0.68	0.62

(CONTD.....3)

14. a) What are the factors determining the working capital requirements?

(OR)

b) From the following estimates, calculate the average amount of Working Capital Required.

Per annum (Rs.)

1. Average amount locked up in Stock :

Stock of finished goods and Work - In - Progress	10,000
Stock of stores, material etc.	8,000

2. Average credit given:

Local Sales 2 weeks credit	1,04,000
Outside the State 6 weeks credit	3,12,000

3. Time available for payments:

For purchases 4 weeks	78,000
For wages 2 weeks	2,60,000

10% to allow for contingencies.

15. a) What are the assumptions of Gordon's dividend model?

(OR)

b) Explain the advantages of leasing.

SECTION - C

(4 X 10 = 40 MARKS)

ANSWER ANY FOUR OUT OF SIX QUESTIONS.

(16th QUESTION IS COMPULSORY AND ANSWER ANY THREE QUESTIONS.

(K4 (Or) K5)

16. State the different sources of working capital available to the firm.

17. Briefly explain the merits and demerits of preference shares.

18. Analyze the factors determining capital structure.

19. Explain the benefits of Net Present Value method under Capital Budgeting.

20. Peerless Ltd. is engaged in customer retailing. You are required to forecast their Working Capital Requirements from the following information.

Projected annual sales	Rs.6,50,000
------------------------	-------------

% of N.P to cost of sales	25%
---------------------------	-----

Average credit allowed to debtors	10 Weeks
-----------------------------------	----------

Average credit allowed by creditors	4 Weeks
-------------------------------------	---------

Average stock carrying (in terms of sales requirement)	8 Weeks
--	---------

Add 20% to allow for contingencies.

21. Briefly explain the determinants of dividend policy.