

**(FOR THE CANDIDATES ADMITTED
DURING THE ACADEMIC YEAR 2022 ONLY)**

22PCC205

REG.NO. :

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

END-OF-SEMESTER EXAMINATIONS : MAY-2023

COURSE NAME: M.Com.-C.A

MAXIMUM MARKS: 50

SEMESTER: II

TIME : 3 HOURS

FINANCIAL MANAGEMENT

SECTION - A

(10 X 1 = 10 MARKS)

**ANSWER THE FOLLOWING QUESTIONS.
MULTIPLE CHOICE QUESTIONS. K1**

1. Objective of financial management is: _____.
 - a) Profit maximization
 - b) Wealth maximization
 - c) Assets maximization
 - d) Sales maximization
2. Which of the following sources of funds has an Implicit Cost of Capital?
 - a) Equity Share Capital
 - b) Preference Share Capital
 - c) Debentures
 - d) Retained earnings.
3. Which of the following stresses on investor's preference reorient dividend than higher future capital gains?
 - a) Walter's Model
 - b) Residuals Theory
 - c) Gordon's Model
 - d) MM Model
4. Capital budgeting is a part of: _____.
 - a) Investment decision
 - b) Working capital management
 - c) Marketing management
 - d) Capital structure
5. Current ratio of a concern is 1, its net working capital will be _____.
 - a) Positive
 - b) Neutral
 - c) Negative
 - d) Neither positive or Negative

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

6. Define Financial Management.
7. What is Cost of Capital?
8. State the Meaning of Leverages.
9. What do you mean by Capital Budgeting?
10. Define Working Capital.

SECTION – B

(5 X 3 = 25 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. K3

11. a) State the differences between wealth and profit maximization.

(OR)

- b) Explain the three important finance decisions.

(CONTD.....2)

12. a) Briefly explain the importance of cost of capital.

(OR)

b) A firm is considering an expenditure of Rs. 75 lakhs for expanding its operations.

The relevant information is as follows :

Number of existing equity shares = 10 lakhs

Market value of existing share = Rs.100

Net earnings = Rs.100 lakhs

Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs. 92 per share and the costs of new issue will be Rs. 2 per share.

13. a) Briefly explain the factors determining capital structure.

(OR)

b) A Company has the following capital structure.

	Rs.
Equity share capital	1,00,000
10% Prof. share capital	1,00,000
8% Debentures	1,25,000

The present EBIT is Rs. 50,000. Calculate the financial leverage assuring that the company is in 50% tax bracket.

14. a) Explain the importance of Capital Budgeting.

(OR)

b) Explain the Net Present Value method.

15. a) From the following information calculate,

(1) Re-order level (2) Maximum level 3) Minimum level (4) Average level

Normal usage: 100 units per week

Maximum usage: 150 units per week

Minimum usage: 50 units per week

Re-order quantity (EOQ) 500: units

Lead in time: 5 to 7 weeks

(OR)

b) Examine the needs of working capital.

SECTION - C

(5 X 5 = 25 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. K4 & K5

16. a) List out the functions of Finance Manager.

(OR)

b) Explain the scope of Financial Management.

(CONTD....3)

17. a) A Ltd. issues Rs. 10,00,000, 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.

i) B Ltd. issues Rs. 1,00,000, 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.

ii) A Ltd. issues Rs. 1,00,000, 8% debentures at a discount of 5%. The tax rate is 60%, compute the cost of debt capital.

iii) B Ltd. issues Rs. 10,00,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate applicable is 50%. Compute the cost of debt-capital.

In all cases, we have computed the after-tax cost of debt as the firm saves on account of tax by using debt as a source of finance.

(OR)

b) Explain the concept of Weighted Average Cost of Capital

18.a) Compute the market value of the firm, value of shares and the average cost of capital from the following information.

- (a) If the firm uses no debt 10%
- (b) If the firm uses Rs. 25,000 debentures 11%
- (c) If the firm uses Rs. 4,00,000 debentures 13%

Assume that Rs. 5,00,000 debentures can be raised at 6% rate of interest whereas Rs. 4,00,000 debentures can be raised at 7% rate of interest.

(OR)

b) Examine the factors affecting dividend policy.

19. a) Discuss the risk and uncertainty in capital budgeting
(OR)

	Proposal I	Proposal II
	Automatic Machine	Ordinary Machine
Cost of the machine	Rs. 2,20,000	Rs. 60,000
Estimated life	5½ years	8 years
Estimated sales p.a.	Rs. 1,50,000	Rs. 1,50,000
Costs : Material	50,000	50,000
Labour	12,000	60,000
Variable Overheads	24,000	20,000

Compute the profitability of the proposals under the return on investment method.

(CONTD....4)

20. a) Prepare an estimate of working capital requirement from the following information of a trading concern.

Projected annual sales	Rs. 6,50,000
Percentage of net profit on sales	25%
Average credit period allowed to debtors	10 Weeks
Average credit period allowed by creditors	4 Weeks
Average stock holding in terms of sales requirements	8 Weeks
Allow 20% for contingencies.	

(OR)

b) Explain the determinants of Working Capital
