

(FOR THE CANDIDATES ADMITTED

20 UPA 412

DURING THE ACADEMIC YEAR 2020 ONLY)

REG.NO. :

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

END-OF-SEMESTER EXAMINATIONS: JULY 2022

B.Com-PA

MAXIMUM MARKS: 70

IV SEMESTER

TIME : 3 HOURS

**PART - III**

**FINANCIAL MANGEMENT**

**SECTION - A**

**(10 X 1 = 10 MARKS)**

**ANSWER THE FOLLOWING QUESTIONS.**

**(K1)**

**MULTIPLE CHOICE QUESTIONS.**

1. Which of the following is the primary goal of financial management?
  - a) Maximise the wealth of Equity shareholders
  - b) Maximise the wealth of Preference Shareholders
  - c) Maximise the wealth of Debenture holders
  - d) Minimize the Expenses.
2. Use of fixed interest securities in the capital structure is called \_\_\_\_\_.
  - a) Operating leverage b) Financial leverage c) Combined leverage d) Cost of capital
3. Which of the following would be the best example of a capital budgeting decision?
  - a) Purchasing new machinery to replace an existing one
  - b) Transferring money to your creditor's account
  - c) Payment of electricity bill for your factory
  - d) Receipt of rent of building
4. Permanent working capital \_\_\_\_\_.
  - a) Varies with seasonal needs
  - b) Includes fixed assets
  - c) Is the amount of current assets required to meet a firm's long-term minimum needs
  - d) Includes accounts payable
5. A short-term lease which is often cancellable is known as \_\_\_\_\_.
  - a) Finance Lease b) Net Lease c) Operating Lease d) Leverage Lease

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

**(K2)**

6. What do you understand by the cost of capital?
7. What is meant by Leverage?
8. Write the formula for determining payback period of a cash flow project.
9. State the difference between gross and net working capital.
10. Compute the market price of equity share on the basis of following information provided by X Co.Ltd. Internal rate of return =12%, EPS = Rs.60, rate of return =8%, dividend payout ratio is 40%.

**(CONTD...2)**

## SECTION – B

(5 X 4 = 20 MARKS)

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

11. a) List out the types of Preference shares

(OR)

b) A Company issues Rs.10,00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amount to Rs.30,000. The debentures are redeemable after 5 years. Calculate before – tax cost of debt assuming a tax rate of 50%.

12. a) ABC Co.Ltd is expecting an annual EBIT of Rs.1 lakh. The company has Rs.4 lakhs in 10% debentures. The cost of equity capital or capitalization rate is 12.5%. You are required to calculate the total value of the firm according to the net income approach.

(OR)

b) A company produces and sells 10,000 shirts. The selling price of the shirt is Rs.500. Variable cost is Rs.200 per shirt and fixed cost is Rs.25,00,000. Calculate operating leverage.

13. a) Project Cost Rs. 1,10,000 Cash Inflows : 1<sup>st</sup> year : Rs. 60,000 ; 2<sup>nd</sup> year : Rs. 20,000 ; 3<sup>rd</sup> year : Rs. 10,000 ; 4<sup>th</sup> year : Rs. 40,000. Calculate the Internal Rate of Return.

(OR)

b) A firm whose cost of capital is 10% is considering two mutually exclusive projects A and B, the cash flows of which are as below:

Year	Project A	Project B
0	(-) 50,000	(-) 80,000
1	62,500	96,170

Calculate Net present value for Project A and Project B.

14. a) Examine the advantages of adequate working capital.

(OR)

b) Describe the concept of operating cycle of working capital.

15. a) Ghajini Ltd. Currently has 10,00,000 equity shares outstanding. Current market price per share is Rs. 100. The net income for the current year is Rs. 3,00,00,000 and investment budget is Rs. 4,00,00,000. Cost of equity is 10%. The company is contemplating declaration of dividends

@ Rs. 5 per share. Assuming MM approach. Calculate market price per share if dividend is declared and if it is not declared.

(OR)

b) Show the differences between financial and operating lease.

(CONTD...3)

**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. Compute the value of the firm, value of shares and average cost of capital from the following information:

Net Operating Income	Rs. 2,00,000
Total investment	Rs. 10,00,000
Equity Capitalization Rate, If:	
Firm uses no debt	10%
Firm uses Rs. 4,00,000 as debt	11%
Firm uses Rs. 6,00,000 as debt	15%

Assume that Rs. 4,00,000 debt can be raised at 5% and Rs. 6,00,000 can be raised at 7% rate of Interest.

17. Examine the objectives of financial management.

18. A company is contemplating to raise additional fund of Rs. 20,00,000 for setting up a project. The company expects, EBIT of Rs. 8,00,000 from the project. Following alternative plans are available :

- (a) To raise Rs. 20,00,000 by way of equity share of Rs. 10 each
- (b) To raise Rs. 10,00,000 by way of equity shares and Rs. 10,00,000 by way of debt @ 10%.
- (c) To raise Rs. 6,00,000 by way of equity and rest Rs. 14,00,000 by way of preferences shares @ 14%.
- (d) To raise Rs. 6,00,000 by equity shares Rs. 6,00,000 by 10% equity Rs. 8,00,000 by 14% Preference shares. The company is in 60% tax bracket, which option is best ?

19. A company is considering whether to purchase a new machine. Machines A and B are available for Rs.80,000 each. Earnings after taxation are as follows:

Year	Machine A	Machine B
	Rs.	Rs.
1	24,000	8,000
2	32,000	24,000
3	40,000	32,000
4	24,000	48,000
5	16,000	32,000

Required: Evaluate the two alternatives using the following: (a) payback method and (b) rate of return on investment method. You should use a discount rate of 10%.

20. Examine the various factors influencing working capital.

21. Evaluate the advantages and disadvantages of lease finance.

