D5BCP2102 (PAGES 3) Reg.No............................

Name: ....

FIFTH SEMESTER UG DEGREE EXAMINATION, NOVEMBER 2023

(Regular/Improvement/Supplementary)

B.Com. Professional

GBCP5B20T: FINANCIAL MANAGEMENT

Time: 3 Hours **Maximum Marks: 80**

PART A: Answer *all* the questions. Each carries *one* mark.

Choose the correct answer.

1. Commercial paper is a type of…………………..
   a) Fixed coupon Bond b) Unsecured short-term debt
   c) Equity share capital d) Government Bond
2. The job of a finance manager is confined to……………
   a) Raising funds b) Management of cash
   c) Raising of funds and their effective utilization. d) None of these
3. In capital budgeting, the term Capital Rationing implies:
   a) That no retained earnings available b) That limited funds are available for investment
   c) That no external funds can be raised, d) That no fresh investment is required in current year
4. Cheques deposited in bank may not be available for immediate use due to…………………
   a) Payment Float b) Receipt Float c) Net Float d) Playing the Float
5. 'Constant Dividend Per Share' Policy is considered as:
   a) Increasing Dividend Policy b) Decreasing Dividend Policy
   c) Stable Dividend Policy d) None of the above

Fill in the Blanks

6. Firm's cost of capital is the average cost of ……………..
7. NOI approach advocates that the degree of debt financing is ………………….
8. Capital Budgeting Decisions are ……………………….
9. If a company moves from a "conservative" working capital policy to an"aggressive" policy, it should expect …………………….
10. ABC Analysis is used in ………………..

(10 x 1 = 10 Marks)

(PTO)

PART B: Answer any *eight* questions. Each carries *two* marks.

11. What is factoring?
12. Which are the essential elements of leasing?
13. What is variable working capital?
14. Name various methods of computing cost of equity capital.
15. What is credit standard?
16. Differentiate between financial structure and capital structure.
17. Name various methods of capital budgeting.
18. What is profitability index?
19. Name the two main theories of dividend.
20. What is deposit float?

(8 x 2 = 16 Marks)

PART C: Answer any *six* questions. Each carries *four* marks.

21. Discuss the merits and limitations of ploughing back of profits as a source of finance.
22. Differentiate between operating lease and financial lease.
23. How is the cost affected when debt is issued at a discount or at a premium?
24. A firm has two alternative plans for raising additional funds of Rs 10 lakh.
    - Issue of 10,000 debentures of Rs 100 bearing 10 % interest per annum.
    - Issue of 4,000 debentures of Rs 100 each bearing 10% interest per annum and balance by the issue of 12% preference shares.
    - You are required to calculate the financial break-even point for each plan assuming a tax rate of 50%.
25. Give a comparative description of various methods of ranking investment proposals.
26. Calculate the payback period of the following projects each requiring a cash outlay of Rs. 1,00,000. Suggest which projects are acceptable if the standard payback period is 5 years.

Cash inflow

Year	PROJECT A	PROJECT B	PROJECT C
1	30,000	30,000	10,000
2	30,000	40,000	20,000
3	30,000	20,000	30,000
4	30,000	10,000	40,000
5	30,000	5,000	…..

27. What are the factors to be considered before determining the amount of cash requirements for the operations of the business?

28. A company's total investment in assets is Rs. 1,00,00,000. It has 1,00,000 shares of Rs. 100 each. Its expected rate of return on investment is 30% and the cost of capital is 18%. The company has a policy of retaining 25% of its profits. Determine the value of the firm using Gordon's model.

(6 x 4 = 24 Marks)

PART D: Answer any *two* questions. Each carries *fifteen* marks.

29. Assuming wealth maximization to be the objective of the financial management, show how the financing, investment and dividend decisions of a company can help to attain this objective.

30. Calculate financial leverage and operating leverage under situations A and B and financial plans 1 and 2 respectively from the following information relating to the operation and capital structure of ABC Limited.

- Installed capacity - 1,000 units
- Actual production and sales - 800 units
- Selling price per unit - Rs 20
- Variable cost per unit - Rs 15

Fixed cost –

Situation A - Rs 800

Situation B - Rs 1,500

Capital structure

Financial plan 1 - equity Rs 5,000, debt Rs 5,000

Financial plan 2 - equity Rs 7,000, debt Rs 2,000

How will various calculations be useful to the financial manager of the company?

31. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are

	PROJECT X	PROJECT Y
Investment	70,000	70,000
Cash flow year 1	10,000	50,000
Cash flow year 2	20,000	40,000
Cash flow year 3	30,000	20,000
Cash flow year 4	45,000	10,000
Cash flow your 5	60,000	10,000

Compute the net present value at 10 % and profitability index for the two projects.

(2 x 15 = 30 Marks)