

**FIFTH SEMESTER B.Com. DEGREE EXAMINATION, NOVEMBER 2023**  
**(Regular/Improvement/Supplementary)**

**FINANCE**

**GBCM5B11T: FINANCIAL MANAGEMENT**

**Time: 2 ½ Hours**

**Maximum Marks: 80**

**SECTION A: Answer the following questions. Each carries *two* marks.**  
**(Ceiling 25 Marks)**

1. Define cost of capital.
2. What is time value of money?
3. What is trading on equity?
4. How investment is averaged under ARR method?
5. Give an account on risk adjusted discount rate.
6. What is permanent working capital?
7. Define capital budgeting.
8. What is financial management?
9. State the approaches of finance function.
10. What is optimum capital structure?
11. Comment on stock dividend.
12. What is inventory turnover ratio?
13. How operating leverage is computed?
14. What is composite cost of capital?
15. Mr. X is likely to receive Rs. 5,000 after 3 years. What is its present value, if the time preference for money is 10%?

**SECTION B: Answer the following questions. Each carries *five* marks.**  
**(Ceiling 35 Marks)**

16. What are the factors which influence the capital structure of a firm?
17. Explain the functional areas of financial management.
18. State the significance of cost of capital.
19. Distinguish between NPV and IRR.
20. A project, which costs Rs. 20,00,000, yielded annually a profit of Rs. 3,00,000 after depreciation @ 12.5% and is subject to income tax @ 50%. Calculate payback period.
21. A company issued 10% debentures of Rs. 5,00,000 at a premium of 10%, redeemable at par after 5 years. The rate of taxation is 40%. Calculate cost of debentures.
22. Calculate EOQ and number of orders to be placed in a year.  
Annual consumption – 10,000 kgs  
Cost of placing an order – Rs. 50  
Storage cost – 8% on average inventory  
Cost per kilogram of materials – Rs. 2
23. A company has sales of Rs. 2,00,000. The variable costs are 40% of sales and fixed costs are Rs. 60,000. The interest on borrowed capital is Rs. 20,000. Calculate financial and operating leverages.

**(PTO)**

**SECTION C: Answer any two questions. Each carries ten marks.**

24. Wealth maximization is the most suitable objective of a firm". Elucidate.
25. A company is considering an investment proposal to install a new machine at a cost of Rs. 2,50,000. It has a life expectancy of 5 years and has no scrap value. The tax rate is 40% and firm uses straight line method of depreciation. The estimated cash flows before depreciation and after tax (CFBT) are as follows:

Years	1	2	3	4	5
CFBT(Rs)	60,000	70,000	90,000	1,00,000	1,50,000
P.V @ 10%	0.909	0.826	0.751	0.683	0.621

Calculate NPV of the machine.

26. A company has the following capital structure.

Sources	Book Value (Rs)	Cost (%)
Equity Capital (Rs. 10 each)	45,000	14
Retained Earnings	15,000	13
Preference Capital	10,000	10
Debentures	30,000	5

Calculate weighted average cost of capital.

27. From the following information extracted from the books of a manufacturing company, calculate gross operating cycle and net operating cycle.

Period covered - 365 days

Average period of credit allowed by suppliers – 16 days

Total debtors outstanding – Rs. 480

Raw material consumption – Rs. 4,400

Total production cost – Rs. 10,000

Total cost of sales – Rs. 10,500

Sales for the year – Rs. 16,000

Value of average stock manufactured:

Raw material – Rs. 320

Work in progress – Rs. 350

Finished goods – Rs. 260

**(2 x 10 = 20 Marks)**