

(PAGES: 2)

D5BCM2205

Reg. No.....

Name: .....

**FIFTH SEMESTER B.Com DEGREE EXAMINATION, NOVEMBER 2024**  
**(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. What is the cost of capital, and why is it important?
2. What is a dividend? Why do companies pay dividends?
3. Define the term capital structure.
4. What is the primary objective of financial management?
5. How does operating leverage affect a company's profitability?
6. What is marginal cost of capital?
7. Comment on internal rate of return.
8. Comment on the significance of retained earnings in financing decisions.
9. Define opportunity cost.
10. Write a note on profitability index.
11. What is the accounting rate of return (ARR) method?
12. Comment on the dividend policy.
13. What is investment decision?
14. Define risk and return in the context of financial management.
15. Name the four sources of working capital.

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

16. Discuss the advantages and disadvantages of payback period method.
17. A company has a cost of equity of 12%, a cost of debt of 6%, and a debt-to-equity ratio of 0.5. Calculate the company's WACC if the tax rate is 25%.
18. A company has earnings of 100,000 and decides to pay out 40% of its earnings as dividends. Calculate the total amount of dividends paid and the retained earnings.
19. A company's current assets are: Stock – Rs. 50,000; Debtors – Rs. 40,000, Cash – Rs. 30,000 and its current liabilities are Rs. 80,000. Calculate the company's working capital.
20. List and describe the capital budgeting process.
21. Give an account on the concept of the time value of money and its significance in financial decision-making.
22. Discuss the various components involved in estimating the cost of capital.
23. State the functions of a finance manager.

**(PTO)**

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

24. Analyze the concept of working capital and discuss the key factors that influence its management in a business.
25. ABC Ltd. considers the purchase of one machine. Suggest whether the machine is profitable on the basis of net present value:

|                          | Cash flow | Present value factor<br>@ 16% |
|--------------------------|-----------|-------------------------------|
| Original cost            | 25565     |                               |
| Profit after tax: Year 1 | 687       | 0.862                         |
|                          | 1687      | 0.743                         |
|                          | 2687      | 0.641                         |
|                          | 3687      | 0.551                         |
|                          | 4687      | 0.476                         |

Expected rate of return of the company is 16%. Expected life of the machine is five years and will not have any salvage value.

26. Given the simplified income statement of Z Ltd. for the year ended 31st March 2024:  
Income Statement of Z Ltd.

|  |               |
|--|---------------|
| Sales:                                   | Rs. 10,50,000 |
| Variable Cost:                           | Rs. 7,67,000  |
| Fixed Cost:                              | Rs. 75,000    |
| Earnings Before Interest and Tax (EBIT): | Rs. 2,08,000  |
| Interest:                                | Rs. 1,10,000  |
| Tax (30%):                               | Rs. 29,400    |
| Net Income:                              | Rs. 68,600    |

Calculate the operating leverage for Z Ltd.

27. Discuss the Relevance and Irrelevance theories of dividend decisions.

**(2 × 10 = 20 Marks)**