

BACHELOR'S DEGREE (C.B.C.S) EXAMINATION, NOVEMBER 2024

2018, 2019, 2020, 2021 ADMISSIONS SUPPLEMENTARY

SEMESTER V - CORE COURSE (COMMERCE)

CO5B18B18 - Financial Management

Time : 3 Hours

Maximum Marks : 80

Part A

I. Answer any Ten questions. Each question carries 2 marks

(10x2=20)

1. What is EIR ?
2. What is investment decision?
3. What is EBIT?
4. Define capital structure.
5. What is factoring?
6. What is DCF technique?
7. What is Cut Off Point?
8. What is meant by temporary working capital?
9. Comment why working capital is known as revolving capital.
10. Prepare a short note on the Dividend policy.
11. What is optimal Dividend policy?
12. What is Dividend Pay-out ratio?

Part B

II. Answer any Six questions. Each question carries 5 marks

(6x5=30)

13. Calculate the compound value when Rs. 10,000 is invested for 3 years and rate of interest is 10% p. a. a) If compounding is done half yearly b) If compounding is done quarterly.
14. Define financial leverage. Briefly explain the impact of financial leverage.
15. Explain briefly ploughing back of profit. State its advantages.
16. The following is the cost information of a firm: Fixed cost Rs60, 000
Variable cost 60% of sales
Sales Rs. 2, 00,000 in previous year and Rs 2, 50,000 in current year.
Find operating leverage and find out percentages in sales and operating profits when:

- a. Fixed costs are not there (no leverage)
- b. Fixed costs are there (leveraged)

17. Define capital budgeting. Explain the procedure for capital budgeting.
18. Explain the steps involved in capital budgeting decisions.
19. What are the dangers of excessive working capital?
20. From the following estimates, calculate the average amount of working capital:

Particulars	Amount (Rs.)
Average amount locked up in stocks:	
Stock of raw materials	20,000
Stock of finished goods	25,000



Average credit given:	
Local Sales (3 weeks credit)	2,08,000
Export sales (6 weeks credit)	6,24,000
Lag in payment for:	
Purchase (3 weeks)	1,56,000
Wages (2 weeks)	4,55,000

Add 10% to provision for contingencies.

21. Illustrate the advantages of the issue of bonus shares to the company and to the shareholders.

Part C

III. Answer any Two questions. Each question carries 15 marks

(2x15=30)

22. Wealth maximisation is considered superior to profit maximisation Why?
23. "Financial leverage acts as a lever to magnify the effect of changes in operating income on EPS". Comment this statement with suitable examples.
24. The cost of capital of a firm is 10%. It has an investment opportunity involving Rs1, 50,000. From the details given below find out IRR and advise whether the project is acceptable. Cash flows for 5 years are:

Year	Cash Inflows
1	15,000
2	30,000
3	45,000
4	75,000
5	90,000

Discount factors at various rates:

Year	10%	15%	20%	25%
1	.909	.870	.833	.800
2	.826	.756	.694	.640
3	.751	.658	.579	.512
4	.683	.572	.482	.410
5	.621	.497	.402	.328

25. A proforma cost sheet of a company provides the following particulars:

Particulars	Amount per unit
Raw Material	100.00
Direct Labour	37.50
Overheads	75.00
Total Cost	212.50
Profit	37.50
Selling Price	250.00



The following further particulars are available:

Raw materials in stock, on average, one month;

Work in process on an average, one week;

Finished goods in stock, on average, 2 weeks.

Credit allowed by suppliers is 3 weeks;

Credit allowed to debtors is 4 weeks;

Average time-lag in payment of wages is one week and 2 weeks in overhead expenses;

one-fifth of the output is sold against cash;

Cash in hand and at bank is desired to be maintained at Rs37,500.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1, 30,000 units of production.

You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month. Work-in-progress stock is 80% complete in all respects.

