

BCOM 2001/BBA 2001

B.Com./B.B.A. DEGREE EXAMINATION,
DECEMBER 2021.

Second Year – Non-Semester

Commerce/Business Administration

FINANCIAL MANAGEMENT

Time : Three hours

Maximum : 100 marks

PART A — (5 × 8 = 40 marks)

Answer any FIVE out of Eight Questions.

1. What is financial management? What major decisions are required to be taken in Finance?
2. Critically examine the advantages and disadvantages of raising funds by issuing shares or deferent types.
3. Explain varies theories of capital structure.
4. Distinguish between operating leverage and financial leverage. Do you think that they are related to capital structure?

5. Balance sheet of X Ltd As on 31.3.2020 is as follows

Liabilities	Rs.	Assets	Rs.
Equity capital	60,000	Net Fixed Assets	1,50,000
10% Debentures	80,000	Current Assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
Total	<u>2,00,000</u>		<u>2,00,000</u>

The company's total asset turnover ratio is 3. Its fixed operating costs are Rs. 1,00,000 and its variable operating cost ratio is 40%, the income tax rate is 50%.

- (a) Calculate for the company all the three types of leverage.
- (b) Determine the likely level of EBIT if EPS is Rs 5.
6. Explain the classification of cost of capital.
7. Discuss the importance of working capital for a manufacturing concern.
8. A project is acceptance unless the yield is 10% cost inflows of the project along with each outflows are given below

Year	Outflows	Inflows	PV factor @ 10%
0	1,50,000	—	
1	30,000	20,000	0.909
2	—	30,000	0.826

3	–	60,000	0.751
4	–	80,000	0.683
5	–	30,000	0.621

The salvage value at the end of 5th year is Rs. 40,000. Calculate the net present values.

PART B — (4 × 15 = 60 marks)

Answer any FOUR out of Six Questions.

9. Critically analyze the functions of financial manager in a large scale industrial establishment.
10. Asian Ltd has issued 10% 10,000 preference shares of Rs. 100 each and has incurred following expenses:
Underwriting commission 2%. Brokerage 1% other expenses Rs.10,000. Assuming corporate tax rate at 50%. Find the cost of preference share capital if shares are issued
(a) at par and
(b) at a premium of Rs.10%.
11. Both over and under capitalization are harmful to the financial interests of a company comment on it.
12. A Performa cost sheet of a company provides the following particulars Elements of cost; Material 40%; Direct Labour 20%; overheads 20%

The following further particular are available:

- (a) It is proposed to maintain a level of activity of 200000 units
- (b) Selling prices is Rs 12/per unit
- (c) Raw material are expected to remain in stores for an average period of one month
- (d) Material will be in process, on averages half a month
- (e) Finished goods are required to be in stock for an average period of one month
- (f) Credit allowed to debtors is two months
- (g) Credit allowed by suppliers in one month

You may assume that sales and production follow a consistent pattern. You are required to prepare a statement of working capital management.

13. Explain briefly the following methods of capital budgeting bringing out the advantages and disadvantages of each
- (a) Pay-back period method
 - (b) Accounting Rate of Return method.
14. What do you understand by capital budgeting process? Enumerate briefly the major steps involved in capital budgeting.