

III Semester B.Com. Examination, November/December 2014

(Semester Scheme)

(F+R) (2013-14 & Onwards) (New Syllabus)

COMMERCE

3.4 : Financial Management



Time : 3 Hours

Max. Marks : 100

**Instruction:** Answer should be written **completely** either in **English** or **Kannada**.

SECTION – A

Answer **any 10** of the following sub-questions. **Each** sub-question carries **2** marks.

(10×2=20)

1. a) Define Financial Management.
- b) What do you mean by Financial Plan ?
- c) Give the meaning of 'Wealth Maximization'.
- d) State the functions of Finance Manager.
- e) What is financial leverage ?
- f) What is capital structure ?
- g) Give the meaning of EPS.
- h) Calculate the present value of ₹ 30,000 received after 6 years, if the discount rate is 9%.
- i) Mention different forms of dividend.
- j) What is Internal Rate of Return ?
- k) What do you mean by Permanent Working Capital ?
- l) Mention any four components of working capital.



## SECTION – B

Answer **any four** of the following questions. **Each** question carries **eight** marks.

(4×8=32)

2. Explain the goals of Financial Management.
3. Briefly explain the factors determining the capital structure.

4. Given the data below :

Sales (₹ 100 per unit)	₹ 3,00,000
Variable cost per unit	₹ 50
Finance expenses	₹ 10,000
Fixed costs	₹ 1,00,000

Calculate operating leverage, financial leverage and combined leverage.

5. Briefly explain the sources of working capital.
6. Suresh Electronics Ltd. is considering the purchase of a Machine. Two alternatives are available-Machine Easy and Machine Quick, each costing ₹ 2,00,000. The estimated cash inflows are as follows :

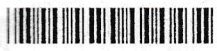
Year	Machine Easy (₹)	Machine Quick (₹)
1	30,000	40,000
2	40,000	50,000
3	60,000	60,000
4	70,000	60,000
5	50,000	50,000

Calculate Pay Back Period and advise the management.

## SECTION – C

Answer **any 3** of the following questions. **Each** question carries **16** marks. (3×16=48)

7. What is dividend policy ? Explain the factors influencing the dividend policy.



8. Omax Auto Ltd. has an equity share capital of ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for modernization. The company plans the following financing schemes :

- a) All equity shares
- b) ₹ 1,00,000 in equity shares and ₹ 2,00,000 in 10% debentures
- c) All in 10% debentures.
- d) ₹ 1,00,000 in equity shares and ₹ 2,00,000 in 10% preference shares. The company's EBIT is ₹ 2,00,000. The corporate tax is 50%. Calculate EPS in each case. Give a comment as to which capital structure is suitable.

9. ABC Ltd. is considering to invest in a project that costs ₹ 7,00,000. Tax rate is 50%. The company uses straight line method of depreciation and proposed project has profit before depreciation and tax as follows :

Year	Profit before depreciation and tax ₹	P.V. factor at 10%
1	1,20,000	0.909
2	1,40,000	0.826
3	2,00,000	0.751
4	2,50,000	0.683
5	3,00,000	0.621

Calculate the following :

- a) Pay back period
- b) Net present value at 10%
- c) Accounting rate of return.

10. The P. Ltd. has equity share capital of ₹ 10,00,000 in shares of ₹ 10 each and debt capital of ₹ 10,00,000 at 20% interest rate. The output of the company is increased by 50% from 1,00,000 units to 1,50,000 units.

Selling price per unit	– ₹ 20
Variable cost per unit	– ₹ 10
Fixed cost	– ₹ 5,00,000
Tax Rate	– 40%

You are required to calculate :

- a) Percentage increase in EPS.
- b) Degree of operating leverage at 1,00,000 units and 1,50,000 units.
- c) Degree of financial leverage at 1,00,000 units and 1,50,000 units.