

BANGALORE UNIVERSITY
4th Semester, B.Com. Examination, May, 2011
(Semester Scheme)
COMMERCE
Financial management

[Time: 3 Hours]

[Max. Marks: 90]

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

SECTION-A

- I. Answer any ten sub-questions. Each question carries 2 marks. (10 x 2 = 20)
- What is Financial Management?
 - Give the meaning of Inventory Management.
 - What do you mean by capital structure?
 - How do you calculate the combined leverage?
 - Initial Investment Rs.7,50,000, Scrap value Rs.1,00,000, Working Life 5 years, Additional working capital Rs.50,000. Calculate Average investment.
 - What is Stable Dividend Policy?
 - Mention the steps in Financial Planning.
 - What is bonus issue?
 - What is capital gearing?
 - What do you mean by Receivable Management?
 - What are the objectives of finance function?
 - Profitability Index: 1.1235, P.V. of cash outflow Rs.1,00,000, P.V. of an annuity of Re.1 for 4 years at 10% discount is 3.159. Calculate P.V. of cash inflow and annual cash inflow.

SECTION-B

- II. Answer any five of the following. Each question carries five marks. (5X5=25)
- Write a brief note on the motives for holding cash.
 - Briefly explain the steps in financial plan.
 - Briefly explain the different types of dividend.
 - Briefly explain any five main sources of Short Term Working Capital.
 - Explain in brief the various types of leverages.
 - Briefly explain the methods of capital budgeting.
 - A company is requiring a machine which requires an investment of Rs.3,20,000. The net income before tax and depreciation is estimated as follows:
Year Rs.

- 1 1,60,000
- 2 60,000
- 3 1,08,000
- 4 1,12,000
- 5 96,000

9. A firm has a sales of Rs.15,00,000, variance cost Rs.9,00,000, fixed charges Rs.3,00,000 and debt capital of Rs.10,00,000 at 10% rate of interest. Calculate the Three Types of Leverages.

SECTION-C

III. Answer any three of the following. Each question carries fifteen marks.
(3X15=45)

- 10. What is Financial Plan? What factors determine Financial Plan? Explain.
- 11. Explain the advantages and disadvantages of Bonus issue.
- 12. Explain the important tools and techniques of Inventory Management and Control.

13. The existing capital structure of ABC Ltd. is as follows:

- Equity shares of Rs.100 each Rs.40,00,000
- Retained earnings Rs.10,00,000
- 9% preference shares Rs.25,00,000
- 7% debentures Rs.25,00,000

The company earns 12% on its capital. The income tax rate is 50%. Company wants to raise Rs.25,00,000 for its expansion project for which it is considering following alternatives:

- 1) Issue of 20,000 equity shares at a premium of Rs.25 per share.
- 2) Issue of 10% preference shares.
- 3) Issue of 9% debentures.

Projected that the price/earning ratio in the case of equity, preference and debentures financing

Would be 20, 17 and 16 respectively. Calculate earning per share and market price per share.

14. ABC Ltd has under consideration two mutually exclusive proposals for the purchase of new equipment.

- | Particulars | Machine A | Machine B |
|------------------------------------|-------------|-------------|
| Net cash outlay | Rs.2,00,000 | Rs.1,50,000 |
| Profit before depreciation and tax | 1 50,000 | 36,000 |

2 60,000 40,000
3 70,000 44,000
4 50,000 20,000
5 40,000 32,000

Assuming the tax rate to be 50% O.V. factor 10% are as follows:

Year P.V. @ 10%

1 0.909
2 0.826
3 0.751
4 0.683
5 0.621

Calculate:

- 1) Pay Back period
- 2) Net present value.

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