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III Semester B.Com. Examination, Nov./Dec. 2016
(CBCS) (Semester Scheme)
(2015-16 and Onwards) (F+R)
COMMERCE
3.4 : Financial Management

Time : 3 Hours

Max. Marks : 70

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

SECTION – A

Answer **any five** sub-questions. **Each** sub-question carries **two** marks : **(5×2=10)**

1. a) Define the term financial management.
- b) What do you mean by trading on equity ?
- c) Give the meaning of capital structure.
- d) What do you mean by stock dividend ?
- e) What is net present value of a project ?
- f) Distinguish between discounting and compounding.
- g) If an investor expects a perpetual sum of ₹ 500 annually from his investment, what is the present value of the perpetuity, if the time preference rate is 20% ?



SECTION – B

Answer **any three** questions. **Each** question carries **six** marks : **(3×6=18)**

2. Mention the need for financial planning.
3. Mention the functions of a finance manager.
4. Profitability index 1.1235

Present value of cash outflow ₹ 1,00,000

Present value of annuity of ₹ 1 for 4 years at 10% discount is 3.159

Calculate the present value of cash inflow and annual cash inflow.



5. Consider the following data of XYZ Ltd.

| | ₹ |
|------------------------|----------|
| Selling price per unit | 60 |
| Variable cost per unit | 10 |
| Fixed cost | 3,00,000 |
| Interest burden | 1,00,000 |

Calculate operating leverage and financial leverage if the number of units sold is 10,000 units.

6. ABC Ltd. is considering 2 alternatives. The first alternative costs ₹ 12,000 and the estimated annual cash inflow from it amounts to ₹ 4,000. Its economic life is 5 years. The second alternative costs ₹ 10,000 and its estimated cash inflow is also ₹ 4,000 p.a. Its economic life is however only 4 years. Advise the management by using 'Pay back period'.

SECTION - C

Answer **any three** questions. **Each** question carries **fourteen** marks : **(3×14=42)**

7. What is working capital ? Discuss the importance of adequate working capital.
8. What is dividend policy ? Discuss the various forms of dividend.
9. A company has EBIT of ₹ 4,80,000 and its capital structure consists of the following securities.

| | ₹ |
|----------------------------------|-----------|
| Equity share capital (₹ 10 each) | 4,00,000 |
| 12% preference shares | 6,00,000 |
| 14.5% debentures | 10,00,000 |

The company is facing fluctuation in its sales.

What would be percentage change in EPS

- a) If EBIT of the company increases by 25% ?
- b) If EBIT of the company decreases by 25% ? The company tax rate is 35%.



10. A Ltd. company has under consideration the following two projects.
The details are as under :

| | Project X | Project Y |
|------------------------------------|------------------|------------------|
| Investment in machinery | ₹ 10,00,000 | ₹ 15,00,000 |
| Working capital | ₹ 5,00,000 | ₹ 5,00,000 |
| Life of machinery | 4 years | 6 years |
| Tax rate | 50% | 50% |
| Scrap value | 10% | 10% |
| Income before depreciation and tax | ₹ | ₹ |
| I year | 8,00,000 | 15,00,000 |
| II year | 8,00,000 | 9,00,000 |
| III year | 8,00,000 | 15,00,000 |
| IV year | 8,00,000 | 8,00,000 |
| V year | — | 6,00,000 |
| VI year | — | 3,00,000 |

Calculate ARR and suggest which project is to be preferred.

11. M Ltd. wishes to instal a machining in rented premises for the production of a component, the demand for which is expected to last for only 5 years.

Initial cash outlay will be :

| | |
|---------------------|-----------------|
| Plant and machinery | ₹ 2,70,000 |
| Working capital | ₹ 40,000 |
| | <u>3,10,000</u> |

The working capital will be fully realised at the end of the 5th year. The scrap value of the plant to be realised at the end of the 5th year is ₹ 5,000. The expected cashflows from business operations are :

| Year | Cash flow | P.V. factor at 15% |
|-------------|------------------|---------------------------|
| 1 | 70,000 | 0.8696 |
| 2 | 1,00,000 | 0.7561 |
| 3 | 1,30,000 | 0.6575 |
| 4 | 90,000 | 0.5718 |
| 5 | 15,000 | 0.3932 |

Calculate the Net Present Value (NPV) of the project using P.V. factor at 15%.