



NS – 428

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**III Semester B.Com. Examination, November/December 2016**  
**(Semester Scheme)**  
**(Repeaters) (2013-14 and Onwards)**  
**COMMERCE**

**3.4 : Financial Management**

Time : 3 Hours

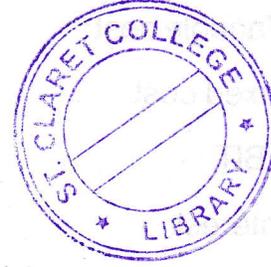
Max. Marks : 100

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

SECTION – A

1. Answer **any ten** of the following sub-questions. **Each** sub-question carries 2 marks. **(2×10=20)**

- a) Define financial management.
- b) Give the meaning of wealth maximisation.
- c) What is time value of money ?
- d) What is operating leverage ?
- e) What do you mean by capital structure ?
- f) Mention any two factors that influence dividend policy.
- g) Give the meaning of EPS.
- h) What is bonus issue ?
- i) What will be the present value of ₹ 1,000 to be received after one year at a discount rate of 10% ?
- j) EBT ₹ 4,00,000; tax at 50%; no. of equity shares 20000. Calculate EPS.
- k) Determine the payback period which requires cash outlay of ₹ 10,000 and generates cash inflow of ₹ 2,000, ₹ 4,000, ₹ 3,000 and ₹ 2,000 in the first, second, third and fourth year respectively.
- l) What is financial planning ?



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## SECTION - B

Answer **any four** of the following questions out of 5. **Each** question carries **8** marks. **(4×8=32)**

2. What factors determine working capital needs ?
3. Explain the role of a finance manager.
4. An income statement of Z Ltd. is given below. Calculate financial leverage, operating and combined leverage.

	Rs.
Sales	10,50,000
Variable cost	7,67,000
Fixed cost	75,000
EBIT	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net income	68,600

5. An investor is considering the purchase of a 8% ₹ 1,000 bond redeemable after 5 yrs. at par. An investor required rate of return is 10%. Determine the present value of the bond. Present value factors at 10%.

Year	1	2	3	4	5
Pvf @ 10%	.909	.826	.751	.683	.621

6. Calculate the payback period of the following projects. Each requiring a cash outlay of ₹ 1,00,000. Suggest which project is acceptable if the standard payback period is 5 yrs.

Year		1	2	3	4	5
Cash	A	30,000	30,000	30,000	30,000	30,000
Inflows	B	30,000	40,000	20,000	10,000	5,000



## SECTION - C

Answer any three of the following questions. Each question carries 16 marks.

(3×16=48)

7. Explain Capital-Budgeting process.
8. 'A' Company is considering investment in a project that costs ₹ 5,00,000. The life of the project is 5 yrs. and estimated salvage value is zero. Tax rate is 55%. The company uses straight line depreciation and proposed project has estimated earnings before depreciation and before tax as follows :

Year	1	2	3	4	5
EBIT	1,00,000	1,00,000	1,50,000	1,50,000	2,50,000

Determine the following :

- Payback period
- NPV at 15%
- Average rate of return.

The following is the present value factors at 15% P.a.

Year	1	2	3	4	5
P.V. factor @ 15%	0.870	0.756	0.658	0.572	0.497

9. X Ltd. has equity share capital ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for expansion plans. The company plans the following schemes :
- All equity shares
  - ₹ 1,00,000 in equity shares and ₹ 2,00,000 in debt at 10%
  - All debt at 10% p.a.
  - ₹ 1,00,000 in equity shares, ₹ 2,00,000 in preference share capital with rate of dividend at 8 percent.

The company has estimated EBIT at ₹ 1,50,000. The corporate rate of tax is 50 percent. Calculate EPS in each case. Give a comment as to which capital structure is suitable.



10. The capital structure of a company consists of an ordinary share capital of ₹ 10,00,000 (Per value ₹ 100) and ₹ 10,00,000 of 10 percent debentures. Sales increased by 20 percent from 100000 units to 120000 units, the selling price is ₹ 10 per unit, variable cost is ₹ 6 per unit. Fixed costs amount to ₹ 2,00,000. Tax to be 50 percent. Calculate

- 1) The percentage increase in earnings per share
- 2) The degree of financial leverage at 100000 units and 120000 units
- 3) The degree of operating leverage at 100000 units and 120000 units.