



IV Semester B.Com. Examination, May/June 2013  
(Semester Scheme)

(Repeaters) (Prior to 2012-13)

COMMERCE

Paper – 4.4 : Financial Management

Time : 3 Hours

Max. Marks : 90

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

SECTION – A

1. Answer **any ten** of the following. **Each** question carries **two** marks. (10×2=20)
- Mention any two objectives of Financial Management.
  - What is 'Trading on Equity' ?
  - Give the meaning of financial risk.
  - What is combined leverage ?
  - Mention the steps involved in the capital budgeting.
  - What is Inventory Management ?
  - What do you mean by Dividend Policy ?
  - Cost of a plant is Rs. 4,00,000 and cash flows for the first 3 years Rs. 40,000, Rs. 1,60,000 and Rs. 2,40,000. Calculate the pay back period in term of years.
  - Different between 'gross' and 'net' working capital.
  - Initial investment is Rs. 1,50,000, scrap value Rs. 25,000, working life 5 years, additional working capital is 12,500. Calculate average investment.
  - What is bonus Issue ?
  - What is EPS ?

P.T.O.



## SECTION – B

Answer **any five** of the following, **each** question carries **five** marks.

**(5×5=25)**

2. Briefly explain the characteristics of a sound financial plan.
3. Briefly explain the different form of dividend.
4. Explain the merits and demerits of NPV method.
5. Discuss the problem associated with cash management.
6. A company has sales of Rs. 40,00,000, variable cost Rs. 24,00,000, fixed cost of Rs. 8,00,000 and debt of Rs. 20,00,000 at 12% rate of interest, what are the operating and financial leverages.
7. The terms 'capitalisation, capital structure and financial structure', do not mean same . Explain.
8. Discuss the difficulties in capital budgeting.
9. It is proposed to start a business requiring capital of Rs. 20 lakhs and expected return is 20% calculate EPS if
  - a) Total capital required is financed by way of Rs. 100 equity.
  - b) Is financed by way of 50% equity and 50% debt (15% interest)

Note : Tax rate is 50%.

## SECTION – C

Answer **any three** of the following. **Each** question carries **15** marks.

**(3×15=45)**

10. Define capital structure. What are the major determinants of capital structure ?
  11. What are the aims of financial management ? Explain in detail.
  12. Explain the importance of cash, receivable and inventory managements to an organisation.
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13. A firm's cost of capital is 10%. It is considering two mutually exclusive projects 'X' and 'Y', the details are given below :

	Year	Project 'X'	Project 'Y'
Investment	0	2,80,000	2,80,000
Net cash flow	1	40,000	2,40,000
	2	80,000	1,60,000
	3	1,20,000	80,000
	4	1,80,000	40,000
	5	2,40,000	40,000
		<b>6,60,000</b>	<b>5,60,000</b>

Compute :

- a) Pay back period
- b) Net present value

P.V. factor at 10% for 5 years

Year	1	2	3	4	5
P.V. factor @ 10%	0.909	0.826	0.751	0.683	0.621

14. The capital structure of UPA Ltd. consists of the following securities

10% debentures Rs. 10,00,000

12% pref. shares Rs. 2,00,000

Equity shares of Rs. 100 each Rs. 8,00,000

Operating profit (EBIT) of Rs. 3,20,000 and the company is in 50% tax bracket.

- 1) Determine the company's EPS
- 2) Determine the percentage of change in EPS associated with 20% increase and 20% decrease in EBIT.
- 3) Determine the financial leverage.