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 D.K.M.COLLEGE FOR WOMEN (AUTONOMOUS), VELLORE-1

**SEMESTER EXAMINATIONS**

 **APRIL - 2016 CCO6B**

**FINANCIAL MANAGEMENT**

Time : 3 Hrs Max.Marks : 75

SECTION-A (10 x 2 =20)

 **Answer ALL the questions.**

1. Define financial management.
2. What is bank credit?
3. Explain the terms capitalisation.
4. What is payback period?
5. What is cost of capital?
6. What is working capital management?
7. What is operating leverage?
8. What is debt – equity ratio?
9. Find cost of equity using Walter’s model where r = 15 %,

ke = 10 %, E = 8 and dividend payout is 50 %.

1. What is dividend policy?

SECTION-B (5 x 5 =25)

 **Answer any FIVE of the following questions.**

1. Explain the objectives of financial management.
2. What are the factors affecting financial planning?
3. What is Over Capitalisation? Write about its cause and effects

on the society.

1. State the factors influencing capital budgeting decision.
2. State the limitations of ratio analysis.
3. You are required to determine (i) Gross working capital and

(ii) Net working capital from the following Assets and Liabilities, S.N. Ltd.,

|  |  |
| --- | --- |
|  |  Rs. |
| Cash  | 45,000 |
| Retaining earning | 1,60,000 |
| Equity share capital  | 1,50,000 |
| Debtors | 75,000 |
| Inventory | 1,26,000 |
| Debenture | 1,00,000 |
| Provision for taxation | 57,000 |
| Outstanding exp. | 21,000 |
| Land and building | 3,00,000 |
| Goodwill | 50,000 |
| Furniture  | 25,000 |
| Long – term bank loan due for pay in the next month | 1,20,000 |
| Cash credit limit fixed by bank for next five years | 5,00,000 |
| Creditors | 39,000 |

1. Income statement of ABC Ltd., is given below. Sales Rs.1050000; variable cost Rs.767000; Fixed cost Rs.75000; EBIT Rs.208000; interest Rs.110000; tax Rs.29400; net income Rs.68600, No. of equity shares 4000

Calculate.

* 1. Operating leverage.
	2. Financial leverage.
	3. Earnings per share.
1. Compute ARR from the following data

Cost of asset = Rs. 4,00,000

Useful life = 10 year

Cash flow after tax (CFAT) = 1,72,000 p.a.

SECTION-C (3 x 10 =30)

 **Answer ALL the questions.**

1. (a) State the functions of a finance Manager.

(Or)

 (b) Bring out the various sources of long term finance.

1. (a) Briefly explain the factors determining capital structure

 decisions.

(Or)

 (b) What do you understand by financial leverage? Discuss its

 significance.

1. (a) Your are required to find working capital from the following

 Information

|  |  |
| --- | --- |
|  | Rs. |
| Raw materials cost | 31,20,000 |
| Wages | 18,72,000 |
| Overhead (including Depreciation on Rs. 1,20,000) |  7,44,000 |
|  | 57,36,000 |
|  Profit | 12,64,000 |
|  Selling price | 70,00,000 |

Additional information:

1. Inventory norms:

|  |  |
| --- | --- |
| Raw materials | 2 months |
| Work – in – progress | 3 months |
| Fishing goods | 1 month |

1. 50 % of the sales in for cash, the remaining 2 weeks

credit is Normal.

1. The company enjoy 4 weeks credit facilities on 30 % of

 the purchase.

1. Lag in payment of overheads is one month.
2. Lag in payment wages is 1½ month.
3. Cash is to be held to the extent of 50 % of current

 liabilities.

 There is a regular production and sales cycle and wages and overhead accrue evenly material is introduced in the beginning of the production cycle.

(Or)

 (b) A company will yield the following returns over a period of

 time by using a project.

 Rs.

|  |  |
| --- | --- |
| 1 year | 80,000 |
| 2 year | 80,000 |
| 3 year | 90,000 |
| 4 year | 90,000 |
| 5 year | 75,000 |

Cost of the machine to be installed is Rs.2,00,000. Deprecation to be charged is 20%. W.D.V tax rate is 50 %. Average cost of capital is 11 %. Could you recommend

accepting the project under IRR method?

**\* \* \* \* \* \* \***