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III Semester B.Com. Degree Examination, March/April - 2021

COMMERCE

Financial Management

(CBCS 2019-20 & Onwards)

Time : 3 Hours

Maximum Marks : 70

Instructions to Candidates:

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) What is financial management?
- b) What is wealth maximization?
- c) Define capital budgeting.
- d) Give the meaning of Capital structure.
- e) What do you mean by bonus shares?
- f) Name the four sources of working capital.
- g) Calculate the future value of Rs.50,000 at the end of 3 years at 12% interest rate per annum.

SECTION - B

Answer any THREE questions. Each question carries FIVE marks. (3×5=15)

2. Briefly explain various forms of dividend.
3. Calculate the future value at the end of five years of the following payments at 9% rate of interest.
  - Rs. 2,000 at the end of 1<sup>st</sup> year.
  - Rs. 4,000 at the end of 2<sup>nd</sup> year.
  - Rs. 6,000 at the end of 3<sup>rd</sup> year.
  - Rs. 8,000 at the end of 4<sup>th</sup> year.
  - Rs. 10,000 at the end of 5<sup>th</sup> year.
4. The following information is available in respect of a product:
  - Units sold - 60,000.
  - Selling price per unit - Rs.12.
  - Variable cost - Rs. 5 per unit.
  - Fixed cost - Rs. 50,000.
  - 10% Debt capital of Rs. 1,00,000.

Calculate all the types of leverages.

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5. ABC Ltd sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31<sup>st</sup> march 2020.

Particulars	Rs.
Sales (3 months credit)	60,00,000
Raw materials	18,00,000
Manufacturing expenses (one month in arrears)	12,00,000
Administration expenses (one month in arrears)	4,80,000
Income tax (Last quarter installment is due)	40,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 month stock of raw materials and one month for finished goods. Cash balance is maintained at Rs.1,00,000. Calculate net working capital.

### SECTION - C

Answer any **THREE** questions. Each question carries **FIFTEEN** marks. (3×15=45)

6. Explain the objectives of financial management.
7. A Company has EBIT of Rs. 5,00,000 and its capital structure consists of the following securities.

	Rs.
Equity share capital (Rs. 10 each)	4,00,000
12% preference shares	6,00,000
14% Debentures	10,00,000

The company tax rate is 30%

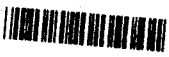
The company is facing fluctuation in its sales.

What would be percentage change in EPS.

- a) If EBIT of the company increases by 20%?
- b) If EBIT of the company decreases by 20%?

8. Ravi Ltd, has under consideration the following two projects. The details are as under:

	Project - X	Project - Y
Investment in machinery	Rs. 5,00,000	Rs. 7,50,000
Working capital	Rs. 2,50,000	Rs. 2,50,000
Life of machinery	4 years	6 years
Tax rate	50%	50%
Scrap value	5%	5%



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Income before depreciation and tax.

Year	Rs.	Rs.
01		
02	4,00,000	7,50,000
03	4,00,000	4,50,000
04	4,00,000	7,50,000
05	4,00,000	4,00,000
06	-	3,00,000
	-	1,50,000

Calculate ARR and suggest which projects is to be preferred.

9. Two competing projects, which require an equal investment of Rs. 1,00,000 and are expected to generate net cash flows as under:

Year	Project - X Rs.	Project - Y Rs.
01	50,000	20,000
02	30,000	24,000
03	20,000	36,000
04	24,000	50,000
05	12,000	16,000
06		8,000

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The cost of the capital of the company is 10%

The following are the present value factor at 10%

Year	01	02	03	04	05	06
P.V. factor at 10%	0.909	0.826	0.751	0.683	0.621	0.564

Evaluate the project proposals under:

- Pay back period.
- NPV method.

Project	Year	Value
Project A	1980	100,000
Project B	1981	200,000
Project C	1982	300,000
Project D	1983	400,000
Project E	1984	500,000
Project F	1985	600,000

Project A is the first project which is to be started.

The second project is to be started in 1981 and the third project is to be started in 1982.

Project	Year	Value
Project X	1980	100,000
Project Y	1981	200,000
Project Z	1982	300,000
Project W	1983	400,000
Project V	1984	500,000
Project U	1985	600,000

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The fourth project is to be started in 1983 and the fifth project is to be started in 1984.

The sixth project is to be started in 1985 and the seventh project is to be started in 1986.