

(8 pages)

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M.Com. (CBCS) DEGREE EXAMINATION,
NOVEMBER 2022.

Second Semester

Commerce — Core

ADVANCED FINANCIAL, MANAGEMENT

(For those who joined in July 2021 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Basic objective of financial management is _____.
- (a) maximization of profits
 - (b) maximization shareholder's wealth
 - (c) ensuring financial discipline in the firm
 - (d) all of these

2. Financial structure refers to _____.
(a) short-term resources
(b) all the financial resources
(c) long-term resources
(d) all of these
3. Long-term finance is required for _____.
(a) current assets
(b) intangible assets
(c) fixed assets
(d) none of these
4. The financial institutions are established by _____.
(a) Both state and central Govt
(b) State Govt
(c) Central Govt
(d) Municipal Corporation
5. Receivables management deals with _____.
(a) receipts of raw materials
(b) creditors management
(c) inventory management
(d) debtors collection

6. Effective inventory management minimizes investment in inventory by effectively meeting the _____.
- functional requirement
 - customer requirement
 - process reliability
 - sales forecasting of a firm
7. In the ABC analysis system the B category stands for _____.
- Outstanding importance in value
 - Comparatively unimportant in value
 - Comparatively important in value
 - Average importance in value
8. Operating leverage indicates the tendency of operating profits (EBIT) to vary disproportionately with _____.
- | | |
|------------|----------------|
| (a) Profit | (b) Fixed cost |
| (c) Sales | (d) EPS |
9. Capital budgeting is also known as _____.
- Investment decisions making
 - Planning capital expenditure
 - Both of the above
 - None of the above

10. Profits with _____ are preferred.
- Lower payback period
 - Normal payback period
 - Higher payback period
 - Any of the above

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).

11. (a) Write a note on profit maximisation vs wealth maximisation.
Or
(b) Explain the objectives of financial management.
12. (a) What are the sources of short-term finance?
Or
(b) Explain the concept of working capital.
13. (a) Bharat Ltd. decides to liberalise credit to increase its sales. The liberalised credit policy will bring additional sales of Rs. 3,00,000. The variable costs will be 60% of sales and there will be 10% risk for non-payment and 5% collection costs. Will the company benefit from the new credit policy?

Or

- (b) The cost of goods sold of E.S.P. limited is Rs. 5,00,000. The opening inventory is Rs. 40,000 and the closing inventory cost is Rs. 60,000. Find out inventory turnover ratio.
14. (a) Determine financial leverage from the following information.
 Net worth Rs. 50,00,000
 Debit/equity ratio 2.5 : 1
 Interest rate 11%
 Operating profit Rs. 40,00,000
- Or
- (b) The cost of capital and the rate of return on investment of Mukesh Ltd are 12% and 20% respectively. The company has 2,00,000 equity shares of Rs. 10 each outstanding and earnings per share are Rs. 25. Compute the market price per share and value of firm in the following situations. Use Walter model, 80% retention
15. (a) A project costs Rs. 1,00,000 and yields an annual cash inflow of Rs. 20,000 for 8 years. Calculate its pay-back period.
- Or
- (b) Explain the objectives of capital budgeting.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

16. (a) Explain the functions of financial management.
- Or
- (b) Explain the role of financial manager.
17. (a) Explain the factors determining the source of finance.
- Or
- (b) Explain the factors determinants of working capital.
18. (a) Discuss the various dimensions of receivables management.
- Or
- (b) The annual demand for a product is 6400 units. The unit cost is Rs. 6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs. 75 determine :
- (i) EOQ
- (ii) Number of orders per annum
- (iii) Time between two consecutive orders.

19. (a) Data relating to Varshan Ltd are given below :

Sales Rs. 10,00,000; Variable cost Rs. 3,00,000; fixed cost Rs. 2,00,000; 10% debenture Rs. 5,00,000; Equity capital Rs. 10,00,000.

You are required to calculate :

- (i) ROI
- (ii) Operating leverage, financial leverage and composite leverage
- (iii) New EBIT if sales drop to Rs. 7,00,000
- (iv) The level at which the EBT of the firm will be equal to zero.

Or

- (b) The book value per share of a company is Rs. 145.50 and its rate of return on equity is 10%. The company follows a dividend policy of 60% pay out. What is the price of its share if the capitalisation rate is 12%?

20. (a) A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow after taxes and before depreciation.

Year	1	2	3	4	5
Net cash flow Rs.	7,000	7,000	7,000	7,000	7,000
Year	6	7	8	9	10
Net cash flow Rs.	8,000	10,000	15,000	10,000	4,000

Using 10% as the cost of capital, determine the following :

- (i) Pay back period
- (ii) Net present value at 10% discount factor
- (iii) Profitability index at 10% discount factor
- (iv) Internal rate of return with the help of 10% and 15% discount factor.

Or

- (b) Explain the process of capital budgeting.