AV–3681

B.Com. I (Accounting and Finance) Semester—I Examination

COMMERCE

FINANCIAL MANAGEMENT—I

(Introduction of Financial Management)

Time : Three Hours] [Maximum Marks : 80

Note :— Attempt **ALL** questions.

SECTION—A

Choose the correct alternatives from the following : 1×20=20

1. The only purpose of Financial Management is ________.
   (a) Wealth Maximization (b) Sales Maximization
   (c) Profit Maximization (d) Assets Maximization
2. Which factors affect the working capital ?
   (a) Nature of Business (b) Credit Policy
   (c) Production Policy (d) All of these
3. Importance of financial decision making is :
   (a) Evaluating investment decision
   (b) Designing a firm's debt policy
   (c) Appraising the financial performance of top management
   (d) All of the above
4. Which of the following is not the responsibility of financial management ?
   (a) Allocation of funds to current and capital assets
   (b) Obtaining the best mix of financing alternative
   (c) Preparation of the firm's accounting statements
   (d) Development of an appropriate dividend policy
5. With the increase in the P/V Ratio, Operating Leverage ______.
   (a) Increases (b) Decreases
   (c) Falsely affected (d) Synchronises
6. ________ is the required rate of return necessary to make a capital expenditure project viable.
   (a) Cost of Capital (b) Cost of Equity
   (c) Cost of Debt (d) All of the above

7. A firm's profit that is distributed to share holders is called :
   (a) Interest
   (b) Dividends
   (c) Discount
   (d) Stock certificate

8. The most common causes of financial problem are :
   (a) Undercapitalization
   (b) Inadequate expense control
   (c) Credit terms
   (d) All of the above

9. The budget for each department is compiled from these :
   (a) Forecasts
   (b) Further event
   (c) Probability
   (d) None of these

10. Which formula may be used for calculating average rate of return ?
   (a) $\frac{\text{Average Income}}{\text{Average Investment}}$
   (b) $\frac{\text{Average Investment}}{\text{Average Income}}$
   (c) $\frac{\text{Income}}{\text{Capital Employed}}$
   (d) $\frac{\text{Capital Employed}}{\text{Average Income}}$

11. Given, current assets = ₹ 60,000, current liabilities = ₹ 40,000, what will be working capital ?
   (a) ₹ 20,000
   (b) ₹ 60,000
   (c) ₹ 40,000
   (d) ₹ 1,00,000

12. The concept of present value is based on the :
   (a) Principle of compounding
   (b) Principle of discounting
   (c) Both (a) and (b)
   (d) None of the above

13. Financial leverage in a firm is positively affected by :
   (a) Intensity of tangible assets
   (b) Operating leverage
   (c) Profitability
   (d) Tax rate

14. _______ leverage is an important determinant of operating risk.
   (a) Operating
   (b) Financial leverage
   (c) Administrative
   (d) None of the above

15. Which of the following formula is related with degree of operating leverage ?
   (a) $\frac{\text{\% Change in Operating Profit}}{\text{\% Change in Sales}}$
   (b) $\frac{\Delta \text{EBIT}}{\text{EBIT}} \div \frac{\Delta \text{Sales}}{\text{Sales}}$
   (c) $\frac{\text{Change in Sales}}{\text{\% Change in Profit}}$
   (d) (a) and (b) both

16. Financial leverage occurs when :
    (a) A firm borrows funds
    (b) A firm financing to the other
    (c) A firm merges with other
    (d) None of the above
17. Cost of Capital from all the sources of fund is called _____.
    (a) Specific Cost
    (b) Composite Cost
    (c) Implicit Cost
    (d) Simple Avg. Cost
18. The concept of cost of capital can also be explained in terms of ______.
    (a) Variable Cost
    (b) Capital Cost
    (c) Full Cost
    (d) Opportunity Cost
19. During planning period, a marginal cost for raising a new debt is classified as _____.
    (a) Debt Cost
    (b) Relevant Cost
    (c) Borrowing Cost
    (d) Embedded Cost
20. Quick assets do not include :
    (a) Govt. bond
    (b) Book debts
    (c) Advance for supply of raw materials
    (d) Inventories $1 \times 20 = 20$

SECTION—B

1. Objective of Financial Management. 4

OR

Significance of Financial Management. 4

2. Need for sources of Finance. 4

OR

Explain about Equity Shares. 4

3. Importance of Capital Budgeting. 4

OR

A project costs ₹ 1,00,000 and yields an annual cash inflow of ₹ 20,000 for 8 years. Calculate its payback period. 4

4. Sales ₹ 100 million
Variable cost ₹ 40 million
Fixed cost ₹ 40 million
Find out the degree of operating leverage. 4

OR

Calculate financial leverage with the following data :

Sales [1,00,000 units]	₹	2,00,000
Variable cost per unit	₹	0.70
Fixed cost	₹	65,000
Interest charges	₹	15,000

4

5. Q Ltd. issues ₹ 1,00,000 debentures @ 10% interest per annum. The tax rate applicable to the company is 40%. Compute cost of debt capital at par. 4

OR

A company issues 10,000, 10% preference shares of ₹ 100 each. Cost of issue is ₹ 2 per share. Calculate cost of preference capital, if these shares are issued @ premium of 10%.

4

SECTION—C

1. Explain nature and scope of Financial Management. 8

OR

Differentiate between Profit Maximization Objective and Wealth Maximization Objective. 8

2. Explain in detail the various sources of finance available to business. 8

OR

"Finance is the life blood of Business." — Comment. 8

3. Define Capital Budgeting. Explain the techniques of capital budgeting. 8

OR

Calculate the average rate of return for projects A and B from the following :

	Project A	Project B
Investment	₹ 20,000	₹ 30,000
Expected Life	4 Years	5 Years
[Salvage Value]		
Project Net Income :		
[after interest, depreciation & taxes]		

Years	₹	₹
1	2,000	3,000
2	1,500	3,000
3	1,500	2,000
4	1,000	1,000
5	—	1,000
	6,000	10,000

If the required rate of return is 12% which project should be undertaken ? 8

4. Installed capacity 1000 units

Operating capacity 800 units

Selling price per unit ₹ 10

Variable cost per unit ₹ 7

Calculate operating leverage under the following situations :

Fixed Cost	₹
Situation A	800
Situation B	1,200
Situation C	1,500

8

OR

Need and importance of leverage. 8

5. Y Ltd. issues 50000 8% debentures. The tax rate applicable to the company is 60%. Compute cost of debt capital at par, at discount of 10% and at premium @ 10%. 8

OR

PQR issued 14% preference share of face value ₹ 100 each. Floatation cost is 5% of selling price. Calculate the cost of preference capital, if shares are issued :

(a) @ Par

(b) @ 10% Premium

(c) @ 5% Discount

and tax 20% is levied on the dividend. 8