III Semester B.Com. Examination, November/December 2017
(CBCS) (Semester Scheme)
(2015-16 and Onwards) (F + R)
COMMERCE
3.4 : Financial Management

Time : 3 Hours Max. Marks : 70

Instruction : *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) Give the meaning of Finance.
   b) Define Financial Management.
   c) What is time value of money ?
   d) Expand EAT, EBIT and PAT.
   e) What do you mean by investment decision ?
   f) What is dividend decision ?
   g) Calculate the future value of a sum of ₹ 1,000 if it is invested at 8% interest for a period of one year.

SECTION – B

Answer **any three** questions. **Each** question carries **six** marks. **(3×6=18)**

2. Explain the steps in Financial Planning.
3. Explain the need for time value of money.
4. Calculate the future value at the end of five years of the following series of payments at 10% rate of interest :
   ₹ 4,000 at the end of 1^{st} year
   ₹ 5,000 at the end of 2^{nd} year
   ₹ 6,000 at the end of 3^{rd} year
   ₹ 7,000 at the end of 4^{th} year
   ₹ 8,000 at the end of 5^{th} year

5. Calculate operating leverage and financial leverage from the following :
   Sales – ₹ 1,00,000 at ₹ 5 per unit

   Variable cost – ₹ 1 per unit

   Fixed cost – ₹ 1,00,000

   Interest expenditure – ₹ 20,000.

6. Rajesh and Co. is considering the purchase of a machine.
   Two machines A and B each costing ₹ 50,000 are available. Cash inflows are expected to be as under. Calculate payback period :

Years	**Machine A**	**Machine B**
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

SECTION – C

Answer **any three** questions. **Each** question carries **fourteen** marks. **(3×14=42)**

7. Explain the factors influencing capital structure.

8. What are the principles of sound financial planning ?

9. Compare two companies in terms of its financial, operating and combined leverages :

Particulars	**Firm 'A'**	**Firm 'B'**
Sales	₹ 20,00,000	₹ 30,00,000
Variable cost	40% of sales	30% of sales
Fixed cost	₹ 5,00,000	₹ 7,00,000
Interest	₹ 1,00,000	₹ 1,25,000

   Interpret the results of the firms.

10. A firm whose cost of capital is 10% is considering two Projects X and Y, the details of which are

	Project 'X' in ₹	Project 'Y' in ₹
Investment	1,00,000	1,00,000
Cash inflow :		
I year	20,000	45,000
II year	30,000	40,000
III year	40,000	30,000
IV year	50,000	10,000
V year	60,000	8,000
Total	**2,00,000**	**1,33,000**

Compute the internal rate of return for the two projects separatly. Project X by 20% and 29% and Project Y by 9% and 15%. Use the following discount for calculating IRR.

	Project X		Project Y	
Years	**20%**	**29%**	**9%**	**15%**
1	0.833	0.775	0.917	0.870
2	0.694	0.601	0.842	0.750
3	0.579	0.466	0.772	0.658
4	0.483	0.361	0.708	0.572
5	0.402	0.280	0.650	0.497

11. Cash flow of X project are given below :

Year	Cash flow	PV factor at 10%
1	20,000	0.909
2	30,000	0.826
3	60,000	0.751
4	80,000	0.683
5	30,000	0.621

The salvage value at the end of 5th year is ₹ 40,000. Calculate the Net Present Value.