



THE AMERICAN COLLEGE, MADURAI

(An Autonomous Institution Affiliated to Madurai Kamaraj University)

Re-accredited (2nd Cycle) by NAAC with Grade "A", CGPA – 3.46 on a 4-point scale

Backlog Arrear Examination, March 2021

PCO 4608

Financial Management

MAX. MARK: 75

Time: 3 hrs

Answer any FIVE Questions

5 X 15 = 75 Marks

1. Discuss the various Financial Decisions in Financial Management.
2. Define Capital budgeting. Explain the various methods of Evaluation capital expenditure proposals.
3. A Limited company is considering investing the project requiring a capital outlay of Rs. 200000. Forecast of annual income after depreciation but before tax is as follows:

Year	Rs.
1	100000
2	100000
3	80000
4	80000
5	40000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income calculate:

- a) Pay-back method
 - b) Rate of Return on original Investment
 - c) Rate of Return on Average Investment
 - d) Net Present value method
 - e) c) Excess present value index
4. What is cost of capital? Discuss the Features and Importance of Cost of Capital.
 5. A) Define operating and financial leverage. How can you measure the degree of operating and financial leverage?
B) Calculate the degree of operating leverage, financial leverage and combined leverage form the following data.
Sales 100000 units at Rs. 2 per unit
Variable cost per unit Rs. 0.70
Fixed cost Rs.100000
Interest Charges Rs. 4000
Also give a comment on the effect of leverages on the financial structure of a company.
 6. Discuss the determinants of Dividend policy.
 7. A) Explain the various types of working capital.

B) Tom & Co Ltd., desires to purchase a business and has consulted you and one point on which you are asked to advise them is average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies.

Particulars	Rs.
Average amount locked up in stock:	
Stock of finished product	5000
Stock of Stores material etc	8000
Average credit given:	
Inland sales 6 weeks credit	312000
Export sales 1½ weeks credit	78000
Lag in payment of wages and other out standings	
Wages 1½ weeks	260000
Stores, materials etc 1½ months	48000
Rent, royalties 6 months	10000
Clerical staff ½ month	62400
Manager ½ month	4800
Miscellaneous expenses 1½ months	48000
Payments in advance	
Sundry expenses (paid quarterly in advance)	8000
Undrawn profits on an average throughout the year	11000

Calculate the average amount of working capital required
