P.B. SIDDHARTHA COLLEGE OF ARTS & SCIENCE
Siddhartha Nagar, Vijayawada – 520 010
Autonomous - ISO 9001 – 2015 Certified

Financial management

Commerce	22COHT37		B.Com (Honours) A&F/TPP/BPM

Offered to : B.Com Hons (A&F, TPP, BPM)

Course Type : Core (TH) /

Year of Introduction: **Year of Revision:** **Percentage of Revision:**

Semester : III **Credits : 4**

Hours Taught : 75 hrs. per Semester **Max. Time** : 3 Hours

Course Prerequisites (if any): students should have a basic knowledge on accounts, economics, and statistics.

Course Description:

Course Objectives:
1.The aim of the course is to expose the students to the basic tools and techniques of financial Management which can be used to help firms maximize value.
2. To enable the students to understand how corporations make important investment, financing
and dividend decisions and how they establish working capital policies.

Course Outcomes: At the end of this course, students should be able to:

CO1 To impart thorough knowledge about capital budgeting tools and techniques. **(PO5, PO7)**

CO2: Understand and analyze the concepts of leverage and capital structure theories. **(Po5, Po7)**

CO3: To provide knowledge about dividend policies and various dividend models. **(Po5 PO7)**

CO4: Evaluate the importance of working capital management to meet the firm's financial objectives. .**(Po5, Po7)**

CO5: Equip with the necessary tools and techniques to be used in working capital management. **(Po5, Po7)**

Syllabus

Course Details

Unit	Learning Units	Lecture Hours
I	**Investment Decisions** Capital Budgeting Definition-Purpose of Capital Budgeting and-Capital Budgeting Process-Types of Capital Investment Decisions-Basic principles for measuring Projected Cash Flows-Capital Budgeting Techniques – Pay Back Period, Accounting Rate of Return, Net Present Value, Profitability Index, Internal Rate of Return	15

II	**Financing Decisions:** Leverages: Operating Leverage-Financial Leverage -Combined Leverage -EBIT – EPS Analysis -Indifferent point -Capital Structure theories: Net Income Approach,-Net Operating Income Approach,-Traditional Approach and Modigliani Miller approach.	20
III	**Dividend Theories** Nature of Dividend decisions -Factors affecting Dividend Decisions -Dividend policies -Forms of Dividends-Dividend theories- Walter's theory-Gordon's theory-MM theory.(Problems)	15
IV	**Overview of Working Capital** Meaning and concepts -Determinants of working capital- Issues in working capital management- Estimating working capital needs -Working capital cycle-Estimation of working capital (Problems)	15
V	**Working Capital Management:** Cash management- Motives of holding cash -Objectives of cash Management-Computation of Optimum cash management Receivables management: Meaning and Objectives -Credit policy - Inventory management: Objectives -costs and risks of holding inventory-tools and techniques of inventory control.	10

Textbook:

- Shashi.K.Gupta. R.K.sharma. Financial Management Theory and Practice, Kalyani publishers, Ludhiyana.

Recommended Reference book:

- Khan M.Y. and Jain P.K.: Financial Management, Text and Problems, Tata McGraw Hill, New Delhi.
- Prasanna Chandra : Financial Management Theory and Practice, Tata Mc Graw Hill, New Delhi.
- Pandey I.M.: Financial Management, Vikas Publishing House, New Delhi.

Course Delivery method : Face-to-face
Course has focus on : Foundation / **E**mployability
Websites of Interest : WWW. INVESTOPEDIA.COM
Co-curricular Activities:

1. Role Play.
2. Seminars
3. Quiz
4. Guest lecturers

Model Question Paper

FINANCIAL MANAGEMENT

II B.COM H (A&F) TPP BPM C Code: COHT37 Max.: 75 Mark

Section A

Answer any six of the following 6×2=12M

1. Explain the term capital budgeting. **CO1 L2**
2. What is meant by leverage? **CO2, L1**
3. What is dividend? **CO3, L1**
4. Define working capital. **CO4, L1**
5. Explain the motives of holding cash.**CO5, L2**
6. Importance of capital budgeting.**CO1, L2**
7. What is meant by operating leverage? **CO2, L1**
8. What is Scrip dividend.**CO3, L2**
9. What is meant by inventory management? **CO5, L1**
10. Define Components of working capital.**CO4, L2**

Section-B

Answer any four of the following 4×12=48M

11. Explain the techniques of capital budgeting. **CO1, L2**
12. Compare Net Income and Net Operating Income Approach in the capital Structure.**CO2, L2**
13. Sales 960000, variable cost 560000, fixed cost 240000, interest 60000, tax rate 50%.
calculate Operating leverage, financial leverage, and Combined leverage.**CO2, L3**
14. The cost of capital and the rate of return an investment of MRM Limited are 10% and 15% respectively. The company has 1 million equity share of rupees 10 each outstanding and earnings per share is Rs. 5. The value of the firm in the following situations. Use Walters model comment on the results.
    a. 100% retention b. 50% retention c. No retention. **CO3 L3**
15. ABC Limited supplies the following information. Estimate its working capital requirement at a level of activity of 20000 units p.a.

Elements of cost	**per unit Rs.**
Raw materials	50
Labour	30
Overhead	20
Total cost	100
Profit	25
Price	125

Additional information

Raw materials in stock on an average for 2 months
Material in progress on an average one month
Finished goods are stocked for three months
Credit to customers 3 months whereas suppliers allowed 2 months credit

Wages and overheads are delayed by half month
Cash hand is estimated at 100000. **CO4 L3**

16. Prepare cash budget from the following data for three months ending 30th June 2016

Month	**Sales**	**Purchases**	**Wages**	**Overheads**
Feb	140000	96000	30000	17000
Mar	150000	90000	30000	19000
Apr	160000	92000	36000	20000
May	170000	100000	32000	22000
June	180000	104000	60000	23000

Other information

a. 10% cash sales 50% of credit sales are collected in next month and the balance in the following month
b. Suppliers - 2-month credit period from the date of purchase
c. Wages outstanding 1 /4 month
d. Overheads outstanding 1/4 month
e. Cash and bank balance as on 1/4 /2016 is expected to be Rs 60000.
f. Machinery will be installed in February 16 at a cost of Rs 960000.
g. The monthly instalment Rs 20000 is payable from April onwards. **CO5, L3**

Section C (From Unit-I)

Answer the following **15M**

17. From the following information calculate the Net Present Value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

Particulars	**Project X**	**Project Y**
Initial investment	Rs 20000	Rs 30000
Estimate life	5 years	5 years
Scrap value	Rs. 1000	Rs. 2000

The profit before depreciation and after-tax cash flow are as follows.

Years	1	2	3	4	5
Project X	5000	10000	10000	3000	2000
Project Y	20000	10000	5000	3000	2000

CO1, L3