K22P 0214

Reg. No. : .....

Name : .....

II Semester M.Com. Degree (CBSS – Reg./Supple./Imp.) Examination, April 2022
(2018 Admission Onwards)
COM2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (a) , **3** marks for Part (b) and **5** marks (c).

1. a) What is operating leverage ?
   b) What are the principles of working capital management ?
   c) Discuss the three broad areas of financial decision making.
2. a) Define Financial Management.
   b) Explain the Arbitrage Process.
   c) Omega Company which earns ₹ 5 per share, is capitalised at 10% and has a return on investment of 12%. Using Walter's model, determine :
      i) The optimum pay-out ; and
      ii) The price of share when dividend pay-out is 0%.
3. a) What is optimal capital structure ?
   b) A company is expecting annual Earnings Before Interest and Tax (EBIT) of ₹ 5,00,000. The company in its capital structure has 12% debentures of ₹ 15,00,000. The cost of equity or capitalization rate is 16%. You are required to calculate the value of the firm and overall cost of capital according to the Net Income Approach.
   c) Explain the factors determining the capital structure.
4. a) Why is maximising wealth a better goal than maximising profit ?
   b) Explain the functional areas of financial management.
   c) Calculate operating leverage and financial leverage from 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

P.T.O.

5. a) What are the motives for holding cash ?

b) A company sells goods on cash as well as credit. From following particulars which are extracted from their book of accounts, calculate average collection period.

	₹
Gross total sales	4,00,000
Cash sales	80,000
Sales returns	28,000
Debtors at the end	36,000
Bills receivable at the end	8,000
Provision for doubtful debts	3,000
Total creditors at the end	25,000

Take 365 days in a year

c) A manufacturer buys certain equipment from outside suppliers at ₹ 30 per unit. Total annual needs are 800 units. The following further data are available:

Annual return on investment, 10%

Rent, insurance, taxes per unit per year,₹1

Cost of placing an order ₹ 100

Determine the Economic Order Quantity

6. a) "An investor gains nothing from bonus shares". Examine the statement critically.

b) From the following information, determine the value of shares using Gordon's Model assuming the dividend pay-out ratio is 80%

i) Rate of return on investment (r) = 15%

ii) Cost of capital (k) = 12%

iii) Earnings per share (E) = ₹ 10

c) The annual cash requirement of A Ltd. is ₹10 lakh. The company has marketable securities in lot sizes of ₹ 50,000, ₹ 1,00,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 5,00,000. Cost of conversion of marketable securities per lot is ₹ 1,000. The company can earn 5% annual yield on its securities. You are required to calculate the economic lot size on the basis of Baumol Model.

(4×9=36)

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks.

7. a) Explain the irrelevance and relevance theory of dividend policy.

OR

b) Define Capital Structure. Explain the theories of capital structure.

8. a) Company X and Y are identical in all respects including risk factors except for debt/equity, X having issued 10% debentures of ₹18 lakh while Y has issued only equity. Both the companies earn 20% before interest and taxes on their total assets of ₹ 30 lakh. Assuming a tax rate of 50% and capitalisation rate of 15% for an all-equity company, Compute the value of companies X and Y using

i) Net Income Approach and

ii) Net Operating Income Approach.

OR

b) A proforma cost sheet of a company provides the following particulars:

Elements of Cost	
Raw materials	40%
Labour	10%
Overheads	30%

The following further particulars are available:

i) Raw materials are to remain in stores on an average 6 weeks

ii) Processing time - 4 weeks (assume 50% completion stage with full material consumption)

iii) Finished goods are required to be in stock on an average period - 8 weeks

iv) Credit period allowed to debtors, on an average - 10 weeks

v) Lag in payment of wages - 2 weeks

vi) Credit period allowed by creditors - 4 weeks

vii) Selling price – ₹ 50 per unit

You are required to prepare an estimate of working capital requirements adding 10% margin for contingencies for a level of activity of 1,30,000 units of production.

(2×12=24)

K20P 0371

Reg. No. : .....

Name : .....

II Semester M.Com. Degree (CBSS – Reg./Suppl./Imp.) Examination, April 2020
(2014 Admission Onwards)
COM2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (**a**), **3** marks for Part (**b**) and **5** marks for Part (**c**). **(4×9=36)**

1. a) Define Financial management.

   b) Write a brief note on risk-return trade off.

   c) Explain the objectives of Financial management.

2. a) Write a short note on trading on equity.

   b) Explain briefly the features of an appropriate capital structure.

   c) ABC Ltd., is expecting an annual EBIT of Rs. 2,00,000 the company in its capital structure has Rs. 8,00,000 in 10% debentures. The cost of equity or capitalization rate is 12.5%. You are required to calculate the value of firm according to NI approach. Also compare the overall cost of capital.

3. a) What is meant by operating leverage ?

   b) What is combined leverage ? Explain its significance in financial planning of a firm.

   c) A firm has sales of Rs. 75,00,000, variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

      i) What is the firm 'ROI' ?

      ii) Does it have favorable financial leverage ?

      iii) What are the operating, financial and combined leverage of the firm ?

      iv) If the sales drop to Rs. 55,00,000, what will be the new EBIT ?

P.T.O.

4. a) What do you mean by capital rationing ?

   b) What are the four approaches to theory of capital structure ? Explain.

   c) Discuss the various source of financing diversification schemes.

5. a) What is stable dividend policy ?

   b) Explain the factors determine the dividend policy of a company.

   c) The following information is available in respect of a firm.

   Capitalization rate = 10%

   EPS = Rs. 10

   Assumed rate of return on investments

   i) 15%

   ii) 8%

   iii) 10%

   Show the effect of dividend policy on the market price of shares, using Walter's model.

6. a) What are the objectives of cash management ?

   b) Explain the objectives of receivable management.

   c) Assume, a firm which purchases raw materials on credit is required by the credit terms to make payments within 30 days. On its side the firm allows its credit buyers to pay within 60 days. The firm's experience has been that it takes, on an average, 35 days to pay its accounts payable and 70 days to collect its accounts receivable. Moreover, 85 days elapse between the purchase of raw material and the sale of finished goods, that is to say, the average age of a firm's inventory is 85 days. What is the firm's cash cycle ? Also, estimate the cash turn-over.

SECTION – B

Answer **the two** questions in this Section. **Each** question carries **12** marks. **(2×12=24)**

7. a) What are the major types of Financial management decisions that business firms make ? Describe each.

OR

b) A company wishes to determine the optimum capital structure. From the following selected information supplied to you, determine the optimal capital structure of the company.

Situation	Debt amount	Equity amount	After tax debt %	Ke%
1	4,00,000	1,00,000	9	10
2	2,50,000	2,50,000	6	11
3	1,00,000	4,00,000	5	14

8. a) From the following projections of XYZ & Co. for the next year, you are required to determine the working capital required by the company.

Annual sales 14,40,000

Cost of production (including depreciation 1,20,000) 12,00,000

Raw material purchases 7,05,000

Monthly expenditure 25,000

Estimated opening stock of raw material 1,40,000

Estimated closing stock of raw materials 1,25,000

Inventory norms,

Raw materials 2 moths

WIP ½ months

Finished goods 1 month

The firm enjoys a credit of half a month on its purchases and allows one month credit on its supplies. On sales orders the company receives an advance of Rs. 15,000.

You may assume that production is carried out throughout the year and minimum cash balance desired to be maintained is Rs. 10,000.

OR

b) The two companies X and Y belong to the risk class. They have everything in common expect that firm Y has 10% debentures of Rs. 5,00,000. The valuation of the two firm's is assumed to be as follows :

	X	Y
EBIT	7,50,000	7,50,000
Interest on debt (I)	Nil	50,000
Earnings to equity holders (NI)	7,50,000	7,00,000
Equity capitalization rate	0.125	0.14
Market value of equity	60,00,000	50,00,000
Market value of debt	–	5,00,000
Total market value of the firm	60,00,000	55,00,000
Implied overall capitalization rate	12.5%	13.63%
Debt-equity ratio	0	0.1

An investor own 10% equity shares of the overvalued firm. Determine his investment cost to earnings the same income so that he is at a brake-even point ? Will he gain the undervalued firm ?

K21P 0808

Reg. No. : .....

Name : .....

II Semester M.Com. Degree (CBSS – Reg./Suppl. (Including Mercy Chance)/Imp.) Examination, April 2021
(2014 Admission Onwards)
COM2C10 – FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (**a**), **3** marks for Part (**b**), and **5** marks for Part (**c**). **(4×9=36)**

1. a) Explain wealth maximization with reference to society.

   b) What are the functions of finance manager ?

   c) What are the assumptions and implications of NI approach ? Is there an optimal capital structure as per NI approach ?

2. a) What is optimal capital structure ?

   b) Differentiate between the business risk and financing risk of a firm. How are they measured by the leverage ?

   c) What is combined leverage ? Examine its significance in financial planning of a firm.

3. Write short notes on :

   a) Walter's Approach to dividend policy.

   b) Gordons Approach to relevance of dividend decision.

   c) Residuals theory of dividend.

4. a) What is adequacy of working capital ?

   b) What is operating cycle concept ?

   c) Examine the importance of trade credit and accrued expenses as a source of working capital financing.

P.T.O.

5. a) What is Concentration banking ?

   b) What are the motives for holding cash ?

   c) Explain the EOQ model of inventory control. What are its shortcomings.

6. a) What are the costs associated with receivables ?

   b) What are Credit terms ? Explain the role of credit terms in a credit policy.

   c) "Average age of receivables is an important yardstick of testing the efficiency of receivables management". Explain.

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks. **(2×12=24)**

7. a) From the following illustration extracted from the books of the manufacturing concern, compute the operating cycle in days.

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(₹ '000')
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of goods sold for the year	10,500
Sales for the year	16,000
Value of Average stock maintained :	
Raw materials	320
Work-in progress	350
Finished goods	260

OR

   b) Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern ?

8. a) The following information is available in respect of the rate of return on investment(r), the cost of capital (K) and earning per share (E) of ABC Ltd.

Rate of return on investment(r)	= (i) 15 % ; (ii) 12% ; (iii) 10%
Cost of capital	= (k) 12%
Earnings per share	= (E) ₹ 10

Determine the value of its share using Gordon's Model assuming the following :

	D/p ratio (1–b)	**Retention ratio (b)**
a)	100	0
b)	80	20
c)	40	60

OR

b) There is strong view prevalent among financial experts that the irrelevant hypothesis underlying the MM theory of dividend distribution is outdated and unsuited to present conditions. Do you agree with this view ? Discuss.

K19P 0319

Reg. No.: .....

Name: .....

II Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, April 2019
(2014 Admission Onwards)
COM2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (**a**). **3** marks for Part (**b**) and **5** marks for Part (**c**).

1. a) What are the objectives of finance function ?
   b) Write a note on profit maximization Vs wealth maximization.
   c) Critically analyse the functioning of financial manager in a large scale industrial establishment.

2. a) Define capital budgeting.
   b) Briefly explain the principles of capital budgeting.
   c) Company X is forced to choose between two machines A and B. The two machines are designed differently, but identical capacity and do exactly the same job. Machine A costs Rs. 3,00,000 and will last for 3 years. It cost Rs. 80,000 per year to run. Machine B is an economy model costing only Rs. 2,00,000 but will last 2 years and costs Rs. 1,20,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10%. Which machine company X should buy ?

   The present value of annuity for 2 years and 3 years at 10% is 1.735 and 2.486 respectively.

3. a) What is meant by financial leverage ?
   b) What is operating leverage ? How does it magnifying revenue of a firm ?
   c) A firm has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000 and fixed cost of Rs. 4,00,000 and debt of Rs. 10,00,000 at 105 rate of interest. What are the operating, financial and combined leverages ? If the firm wants to double its EBIT, how much of rise in sales would be needed on a percentage basis ?

P.T.O.

4. a) Write a short note on capital gearing.
   b) Give a critical appraisal of a traditional approach and MM approach to the problem of capital structure.
   c) There are two firms X and Y which are exactly identical that x does not use any debt in its financing. While Y has Rs. 1,00,000 5% debentures in its financing. Both the firms have EBIT of Rs. 25,000 and the equity capitalization rate is 10%. Assuming the corporate tax of 50% calculate the value of the firm using M and M approach.

5. a) What do you mean by dividend pay-out ratio ?
   b) Explain the various forms of dividends.
   c) An investor gains nothing from 'bonus shares'. Examine the statement critically.

6. a) What do you mean by operating cycle ?
   b) Explain the various factors affecting working capital decisions of a company.
   c) A company has a policy of maintaining a minimum cash balance of Rs. 1,00,000 the standard deviation in daily cash balance is Rs. 10,000. The interest rate on a daily basis is 0.01%. The transaction cost for each sale or purchase of securities is Rs. 50. Compute upper control limit and the return point as per Miller-Orr Model.

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks.

7. a) "The principal focus of finance is on decision and actions which affect the value of the firm". How can the financial management help to maximize it ?

OR

   b) The following informations available in respect of a firm.

Capitalization rate	10%
EPS	Rs. 50

   Assumed rate of return on investments

   i) 12%
   ii) 8%
   iii) 10%

   Show the effect of dividend policy on market price of share applying Walter's formula when dividend pay out ratio is (a) 0% (b) 20% (c) 40% (d) 80%.

8. a) ABC Ltd. Sells goods at a gross profit of 25% considering depreciation as part of the cost of production. Its annual figures are as follows.

	Rs.
Sales at two months credit	18,000,000
Materials consumed (suppliers extend two months credit)	4,50,000
Wages paid (monthly in arrear)	3,60,000
Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear)	40,000
Total administrative expenses, paid as above	1,20,000
Sales promotion expenses, paid quarterly in advance	60,000

The company keeps one month's stock each of raw materials and finished goods and believes in keeping Rs. 1,00,000 in cash. Assuming a 15% safety margin, ascertain the requirements of working capital of the company on cash costs basis. Ignore work-in-progress.

OR

b) A firm has sales of Rs. 75,00,000, variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

i) What is the firm's ROI ?

ii) Dose it have favorable financial leverage ?

iii) What are the operating financial and combined leverages of the firm ?

iv) If the sales drop to the Rs. 50,00,000. What will be the new EBIT ?

v) At what level the EBT of the firm will be equal to zero ?

K18P 0222

Reg. No. : .....

Name : .....

Second Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, March 2018 (2014 Admn. Onwards) COM2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (**a**), **3** marks for Part (**b**) and **5** marks for Part (**c**).

1. a) Define financial management.

   b) Explain three main considerations in procuring funds.

   c) Discuss the important functions of finance manager.

2. a) What do you mean by optimum capital structure ?

   b) Explain briefly major considerations in capital structure planning.

   c) a) A company issues Rs. 10,00,000 16% debentures of Rs. 100 each. The company is in 35% tax bracket. You are required to calculate cost of debt after tax. If debentures are issued at (i) Par (ii) 10% discount and (iii) 10% premium.

      b) If brokerage is paid at 2% what will be cost of debentures if issue is at par ?

3. a) Explain the concept of operating leverage.

   b) What is combined leverage ? Explain its significance in financial planning of a firm.

P.T.O.

c) The following figures relate to two companies.

(Rs. in lakhs)

	P Ltd.	Q Ltd.
Sales	500	1,000
Less : Variable costs	200	300
Contribution	300	700
Less : Fixed costs	150	400
EBIT	150	300
Less : Interest	50	100
Profit before tax	100	200

i) Calculate the operating, financial and combined leverages for the two companies, and

ii) Comment on the relative risk position of the firm.

4. a) What is capital gearing ?

b) Write a note on NPV Vs IRR.

c) Explain the factors affecting capital structure.

5. a) What do you mean by 'Scrip Dividend' ?

b) Explain the various factors which influence the dividend decision of a firm.

c) The following information relates to XYZ Ltd.

Paid up equity capital	20,00,000
Earning of the company	2,00,000
Dividend paid	1,60,000
Price earning ratio	12.5
Number of shares outstanding	20,000

You are required to find out whether the company's dividend pay out ratio is optimal, using Walter's Model.

6. a) Define net working capital.

b) Explain the techniques of inventory management control.

c) A firm has been offered a cash management services by a bank for Rs. 1,00,000 per year. It is estimated that such a services would not only eliminate 'excess' cash on deposits (Rs. 8,00,000) but also reduce its administration and other costs to the tune of Rs. 5,000 per month. Assuming the cost of capital of 15%, is it worthwhile for the firm to engage the cash management services ?

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks.

7. a) "Maximisation of profit is regarded as the proper objective of investment decision, it is not as exclusive as maximizing shareholders wealth" Comment.

OR

b) XYZ Limited wishes to raise additional finance of Rs. 10 lakhs for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes. The following are the further details :

1) Debt/equity mix	30% and 70%
2) Cost of debt.	
Upto Rs. 1,80,000	10% (before tax)
Beyond Rs. 1,80,000	16% (before tax)
3) Earnings per share	Rs. 4
4) Dividend pay out	50% of earnings
5) Expected growth rate in dividend	10%
6) Current market price per share	Rs. 44
7) Tax rate	50%

Your are required :

a) To determine the pattern for raising the additional finance.

b) To determine the post-tax average cost of additional debt.

c) To determine the cost of retained earnings and cost of equity and

d) Compute the overall weighted average after-tax cost of additional finance.

8. a) While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for that project. Add 10% to your figure to allow contingencies.

	Amount per unit (Rs.)
Estimated cost per unit of production is	
Raw material	80
Direct labour	30
Overheads (exclusive of depreciation)	60
Total cost	**170**

Additional information :

Selling price – Rs. 200 per unit

Level of activity –1,04,000 units of production per annum

Raw material in stock average 4 weeks

W-I-P (assume 50% completion stage in respect of conversion costs) – average 2 weeks

Finished goods in stock – average 4 weeks

Credit allowed by suppliers – average 4 weeks

Credit allowed to debtors – average 4 weeks

Lag in payment of wages average – 1½ weeks

Cash at bank is expected to be Rs. 25,000

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

OR

b) Company X and Y are in the same risk class and are identical in every fashion except that company X uses debt while company Y does not. The levered firm has Rs. 90,00,000 debentures carrying 10% interest rate. Both of the firm earn 20% EBIT on their total assets of Rs. 15,00,000. Assume perfect capital market, rational investors and so on, a tax rate of 50% and capitalization rate of 15% for an all-equity company.

i) Compute the value of the firm X and Y using the NI approach.

ii) Compute the value of each firm using NOI approach.

K17P 0637

Reg. No. : .....

Name : .....

Second Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, March 2017
(2014 Admn. Onwards)
COM 2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this section. **Each** question carries **1** mark for Part (a), **3** marks for Part (b) and **5** marks for Part (c).

1. a) Define Financial Management.
   b) Explain the scope of Finance Function.
   c) What are the objectives of Financial Management ?

2. a) Define Capital Structure.
   b) Explain the difference between capital structure and financial structure.
   c) X Ltd. needs Rs. 20,00,000 for expansion. It expected to yield an annual EBIT of Rs. 3,20,000. In choosing a financial plan X Ltd. has an objective of maximizing EPS. It is considering the possibility of issuing Equity shares and raising Debt of Rs. 2,00,000 or Rs. 8,00,000 or Rs. 12,00,000. The current market price per share is Rs. 50 and is expected to drop to Rs. 40 if the fund borrowed is excess of Rs. 10,00,000. Fund can be borrowed at the rates indicated bellow :
      a) Upto Rs. 2,00,000 @ 8%
      b) Over Rs. 2,00,000 - Rs. 10,00,000 @ 12%.
      c) Over Rs. 10,00,000 @ 18%

      Assume a tax rate of 50%. Determine the EPS for the three financing alternatives.

3. a) Explain the concept of Financial Leverage.
   b) How does financial risk different from business risk.
   c) From the following information, calculate percentage change in EPS if sales are increased by 5%.

	(Rs. Lakhs)
EBIT	1120
PBT	320
Fixed Capital	700

P.T.O.

4. a) What is Optimum capital structure ?
   b) Explain NI and NOI theory of capital structure.
   c) Explain the factors affecting capital structure.

5. a) What are the objectives of Dividend Policy ?
   b) Critically evaluate the assumptions of MM dividend irrelevance hypothesis.
   c) Kairali Finance Ltd. has 15000 Equity shares outstanding as on date. Currently the share of the company is being traded at a price of Rs. 125 per share. It is expected that the firm would pay dividend of Rs. 5 per share in the next year. The firm has project in hand requiring new investment of Rs. 5,00,000. The shareholders expected rate of return is 12% and the firm expected to have net profit of Rs. 2,50,000 at the end of the year. Illustrate MM approach that payment of dividend has no impact on the value of the firm.

6. a) Define Operating Cycle.
   b) Explain the factors of determining working capital requirement.
   c) Prepare an estimate of working capital requirement from the following information of trading concern.
      1) Project annual sales 100000 units
      2) Selling price Rs. 8 per unit.
      3) Percentage of net profit on sales 25%
      4) Average credit period allowed to customers 8 weeks
      5) Average credit period allowed by Suppliers 4 weeks
      6) Average stock holding in terms of sales requirements 12 weeks
      7) Allow 10% for contingencies. **(4×9=36)**

SECTION – B

Answer the **two** questions in this section. **Each** question carries **12** mark.

7. a) The following data relate to a firm.

EPS	Rs. 15
Capitalization rate	10%
Retention rate	40%

   Determine the price per share under Walter's and Gordon's models if the internal rate of return is 15 percent, 10 percent and 5 percent.

OR

   b) "The objective of financial management is wealth maximization and not profit maximization" Comment.

8. a) The proforma cost sheet of a company provides the following particulars :

Elements of cost	Amount per unit
Raw material	70
Direct Labour	30
Overhead	50
Total cost	150
Profit	50
Selling Price	200

The following particulars are available.

a) Raw material in stock on an average for 2 months.

b) Materials are in process on an average for 1 month.

c) Finished goods are in stock on an average for 2 months.

d) Credit allowed by suppliers is 2 months.

e) Credit allowed to customers is 2 months.

f) Lag in payment of wages is 1 month.

g) Lag in payment of overhead expense is 1 month.

h) $\frac{1}{4}^{th}$ of the output is sold against cash.

i) Cash in hand and at bank is expected to be Rs. 50,000.

You are required to calculate working capital needed to finance a level of activity of 100000 units of production. Assume that production is carried on evenly throughout the year, wage and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

OR

b) Two firms A and B have the following information :

(Rs. : Lakhs)

	Sales	Variable cost	Fixed cost
Firm A	1800	450	900
Firm B	1500	750	375

You are required to calculate (a) Profit to sales ratio, (b) Break-even point and (c) degree of operating leverage for both firm. If sales increase by 20 percent what shall be the impact on the profitability of the two firms.

(2×12=24)

K16P 0452

Reg. No. : .....

Name : .....

Second Semester M.Com. Degree (Regular/Supplementary/ Improvement) Examination, March 2016
(2014 Admn. Onwards)
COMMERCE
COM 2C10 : Financial Management

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any 4** questions. **Each** carries **1** mark for Part **a)**, **3** marks for Part **b)** and **5** marks for Part **c)**.

I. a) What do you mean by financial planning ?

b) Explain the steps involved in financial planning.

c) Discuss the features of a good financial plan.

II. a) What is leverage ?

b) What are the different types of leverage ?

c) The installed capacity of a manufacturing concern is 1200 units. Actual capacity used is 800 units, selling price per unit is ₹ 10, variable cost is ₹ 7 per unit. Compute the operating leverage in the following situations :

1) When fixed cost is ₹ 300

2) When fixed cost is ₹ 800

3) When fixed cost is ₹ 1,200.

III. a) What is dividend policy ?

b) What is cash dividend ? What are the various types of cash dividend ?

P.T.O.

c) A company decides that it will not pay any dividends for 20 years. After that time it is expected that the company could pay dividend of ₹ 15 per share indefinitely. However, the company at present could pay ₹ 3 per share. The required rate of this company's shareholders is 10%. What is the loss to each shareholder as a result of the policy of the company ? Calculate the value of the equity shares.

IV. a) What is optional capital structure ?

b) What are the patterns of capital structure ?

c) Nanda & Co., contemplating conversion of 1000, 14% convertible bond of ₹ 1,000 each. Market price of bond is ₹ 1,080. One bond will be exchanged for 10 shares. Price earning ratio before redemption is 20 : 1 and after redemption 25 : 1. Number of shares prior to redemption are 20,000. EBIT amounts to ₹ 4,00,000. Tax rate 35%. Advise the company.

V. a) Define Receivable.

b) Explain the cost related to receivables.

c) A group of new customer with 10% risk of non-payment desires to establish business connection with you. He would require 1.5 months of credit and is likely to increase your sale by ₹ 1,00,000 p.a. Cost of sale amounted to 80% of sales. Income tax rate is 40%. Should you accept the offer if the required rate of return is 30% (after tax) ?

VI. a) Define perpetual inventory system.

b) What are the advantages of perpetual inventory system ?

c) Gowtham Ltd., produces a product which has a monthly demand of 4000 units. The product requires a component 'X' which is purchased at ₹ 20. For every finished product, one unit of the component is required. The ordering cost is ₹ 120 per order and the building cost is 10% p.a. You are required to calculate :

1) EOQ

2) If the minimum lot size to be supplied is 4000 units. What is the extra cost, the company has to incur ?

SECTION – B

Answer the **two** questions, **each** carries **12** marks.

VII. From the following information extracted from the books of a manufacturing company. Compute the operating cycle period and working capital required :
Period covered : 365 days
Average collection period allowed by suppliers : 16 days

	₹
Average total of debtors outstanding	48,000
Raw material consumption	4,40,000
Total production cost	10,00,000
Total cost of sale	10,50,000
Sale for the year	16,00,000
Value of average stock maintained :	
Raw material	32,000
Work in progress	35,000
Finished goods	26,000

OR

There is strong view prevalent among financial experts that the irrelevant hypothesis underlying the MM theory do dividend distribution is out dated and unsuited to present conditions. Do you agree with this view ? Discuss.

VIII. The values of two firms X and Y in accordance with traditional theory are given below :

	X	Y
Expected operating income ($\overline{X}$)	50,000	50,000
Total cost of debt (K_d D = R)	0	10,000
Net income ($\overline{X}$ – R)	50,000	40,000
Cost of equity (K_e)	0.10	0.11
Market value of shares (S)	5,00,000	3,60,000
Market value of debt (D)	0	2,00,000
Total value of firm (V = S + D)	5,00,000	5,60,000
Average cost of capital (K_0)	0.10	0.09
Debt-equity ratio	0	0.556

Compute the values for firm's X and Y as per the MM theories. Assume that :

i) Corporate income tax does not exist and

ii) The equilibrium value of K_0 is 12.50.

OR

Explain the various methods of inverting surplus cash. What criteria should a firm use in inverting in marketable securities ?

M 27270

Reg. No. : .....

Name : .....

Second Semester M.A./M.Sc./M.Com. Degree (Reg./Sup./Imp.) Examination, March 2015
Commerce
(2014 Admn. Onwards)
COM 2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** question in this Section. **Each** question carries **1** mark to Part **(a)** **3** mark to Part **(b)**, **5** mark to Part **(c)**.

I. a) What are the goals of financial management ?

b) Explain the role of finance manager.

c) What are the executive functions of financial management ?

II. a) What do you mean by the degree of financial leverage ?

b) What are the limitations of financial leverage ?

c) A firm's capital structure comprise the following securities

Equity share capital (Rs. 10 shares)	2,00,000
10% preference shares capital	2,00,000
9% debenture	2,50,000

The present EBIT is Rs. 1,00,000. Assuming that the firm is in 50% tax bracket. Compute the financial leverage.

III. a) What do you mean by arbitrage process ?

b) Critically evaluate M.M. theory.

c) There are two firms A and B which are exactly identical except that A does not use any debt in its financing, while B has ₹ 4,00,000, 10% debenture in its financing. Both the firms have earnings before interest and tax of ₹ 3,20,000 and the after tax capitalization rate is 16%. Assuming the corporate tax of 50%, calculate the value of the firm according to M.M. hypothesis.

P.T.O.

IV. a) State the different patterns of capital structure.

b) How will you calculate the financial breakeven point ?

c) A company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% debenture. The equity capitalisation rate of the company is 10% calculate the value of the firm and overall capitalization rate according to Net Income Approach (ignore income tax).

If the debenture debt is increased to ₹ 3,00,000 what shall be the value of the firm and the overall capitalisation rate ?

V. a) What is dividend pay out ratio.

b) Write a note on stable dividend policy.

c) X Ltd. is an established company having its share quoted in the major stock exchange. Its current share market price after dividend distributed at the rate of 20% p.a. having a paid up share capital of ₹ 40 lakhs of ₹ 10 each annual growth rate in dividend expected is 4%. The expected rate of return on its equity capital is 15%. Compute the value of XY Ltd's share based on Dividend Growth Model.

VI. a) Define receivables management.

b) Explain the cost of maintaining receivables.

c) Suresh & Co. is considering pushing up its sales by extending credit facilities to the following categories of customers.

a) Customers with a 15% risk of non-payment and

b) Customers with a 25% risk of non payment.

The incremental sales expected in the case of category (a) are ₹ 50,000 while in the case of category (b) they are ₹ 60,000. The cost of production and selling cost are 50% of sales while the collection cost amount to 7% of sales in the case of category (a) and 12% of sales in the case of category (b) You are required to advise the firm about extending credit facilities is each of the above categories of customer.

SECTION – B

Answer **any two** questions. **Each** carries **12** marks.

VII. a) Foods Ltd. is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase capacity utilization in the coming year by 33 $\frac{1}{3}$% over the existing level of production. The following data has been supplied.

i) Unit cost structure of the product at current level :

	Rs.
Raw material	4
Wages (variable)	2
Overheads (variable)	2
Fixed overheads	1
Profit	3
Selling price	12

ii) Raw material will remain at store for one month before being issued for production. Material will remain in process for further one month. Suppliers grant 3 months credit to the company.

iii) Finished goods remain is godown for one month.

iv) Debtors are allowed credit for 2 months.

v) Lag is wage and overhead payments is one month and there expenses accrue evenly throughout the production cycle.

vi) No increase either in cost of inputs or selling price is envisaged.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of ₹ 19,500 has to be maintained.

OR

b) Discuss the determinants of dividend policy.

VIII. a) X Ltd. is for seeing a growth rate of 12% per annum in the next two years. The growth rate is likely to fall to 10% for the third and fourth years. After that the growth rate is expected to stabilize at 8% per annum. If the last dividend paid was ₹ 1.50 per share and the investor's required rate of return is 16%. Find out the intrinsic value per share of X Ltd. as of date. You may use the following table

Years	0	1	2	3	4	5
P.V. factor at 16%	1	0.86	0.74	0.64	0.55	0.48

OR

b) Explain the tools and technique of inventory management. **(2×12=24)**
