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 ?

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