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)