



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 | <u>200</u> | <u>300</u> |
| Contribution | 300 | 700 |
| Less : Fixed costs | <u>150</u> | <u>400</u> |
| EBIT | 150 | 300 |
| Less : Interest | <u>50</u> | <u>100</u> |
| 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% |

You are required :

- To determine the pattern for raising the additional finance.
- To determine the post-tax average cost of additional debt.
- To determine the cost of retained earnings and cost of equity and
- 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.