



K16P 0257

Reg. No. :

Name :

**Fourth Semester M.Com. Degree (Regular/Supplementary/
Improvement) Examination, March 2016
(2013 and Earlier Admn.)
Paper – 16 : FINANCIAL MANAGEMENT**

Time : 3 Hours

Max. Marks : 80

SECTION – A

Answer **any 5** questions. **Each** carries **8** marks :

1. Define finance function and state the objectives of finance function.
2. Explain the features of a good financial plan.
3. Your company's share is quoted in the market at Rs. 20/- currently. The company pays a dividend of Rs. 1/- per share and the investor expects a growth rate of 5% per year. Compute :
 - a) The company's cost of equity capital.
 - b) If the anticipated growth rate is 6% p.a. calculate the indicated market price per share.
 - c) If the company's cost of capital is 8% and the anticipated growth rate is 5% p.a. Calculate the indicated market price if the dividend of Rs. 1 per share is to be maintained.
4. AB Ltd. is considering pushing up its sales by extending credit facilities to the following categories of customer.
 - a) Customer with a 15% risk of non-payment and
 - b) Customer with a 25% risk of non-payment.

The incremental sales expected in the case of category (a) are Rs. 50,000/- which is the case of category (b) Rs. 60,000.

The cost of production and selling cost are 50% of sales while the collection cost amount to 7% of sales is the case of category (a) and 12% sale in the case of category (b).

You are required to advice the firm about extending credit facilities to each of the above categories of customers.

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5. Explain the operating cycle of a trading concern and manufacturing concern.
6. What are the different forms of stable dividend policy ? State the merit and demerits of stable dividend policy.
7. What are the dangers of excessive working capital ?
8. Explain the requisites of optimal capital structures. (5x8=40)

SECTION – B

Answer **any two** questions, **each** carries **20** marks :

9. You are a responsible officer in the finance department of a company. The data given below are estimates relating to the year ending 31st March 2011.

Rs. in lakhs

1) Opening balances :

Raw material	410
Work in progress	100
Finished goods	450
Receivable	600
Payable	450

2) Estimated closing balance :

Raw materials	450
Work in progress	120
Finished goods	500
Receivable	740
Payable	420

3) Raw material purchased	1,600
4) Manufacturing expenses	1,100
5) Selling, Administration and financing cost	480
6) Sales	4,000

You are required to compute cash working capital of the company under operating cycle method. Assume 360 days in the year.



10. Karvy Ltd. has the following capital structure on Dec. 31st 2012.

Equity share capital (60,000 shares of 10 each)	6,00,000
12% Preference share	6,00,000
10% Debentures	<u>3,00,000</u>
Total capital	15,00,000

The equity shares of the company are quoted at ₹ 102 and the company is expected to declare a dividend of ₹ 9/- per share for the next year. The company has registered a dividend growth rate of 5% which is expected to be maintained. Assuming the tax rate applicable to the company at 50%. Calculate the weighted average cost of capital.

11. Explain the factors influencing the capital structure of a company.

12. What is Modigliani-Miller's irrelevance hypothesis? Critically evaluate its assumptions. (2×20=40)
