D 131916 **(Pages : 3)** **Name.......................................**

Reg. No..................................

THIRD SEMESTER M.Com. (CBCSS) DEGREE REGULAR/SUPPLEMENTARY EXAMINATION, NOVEMBER 2025

Master of Commerce

MCM3C11—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours — Maximum : 30 Weightage

Answers should be written in English only.

Part A

Answer any **four** *questions.*
Each question carries 2 weightage.

1. State the legal environment of financial decisions.
2. What is financial engineering ?
3. Explain ageing schedule of receivables.
4. What is Just-in-Time (JIT) inventory system ?
5. What is Operating Leverage ?
6. Define Capital Structure.
7. Write a note on IRR method.

($4 \times 2 = 8$ weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 weightage.

8. Explain the agency problem between owners and management and methods to reduce it.
9. Describe arbitrage process with MM approach using a numerical illustration.
10. Explain the factors influencing capital structure of a firm.
11. Share price is Rs. 60; expected dividend Rs. 4 ; growth 5% ; tax rate 20% ; brokerage 3%. Compute cost of retained earnings.

Turn over

12. XYZ Ltd. has 1,800 shares priced at Rs. 110 each. Dividend expected is Rs. 11.

    Capitalisation rate 19%. Net income Rs. 50,000. Compute share price at year-end (i) with dividend, (ii) without dividend (MM theory).

13. Cost of project = Rs. 2,20,000

    Cash inflows :

    Y_1 - Rs. 60,000

    Y_2 - Rs. 70,000

    Y_3 - Rs. 80,000

    Y_4 - Rs. 70,000

    Salvage value : Rs. 40,000

    Discount rate : 12%

    PV factors : 0.893,0.797,0.712,0.636

    Calculate NPV.

14. Discuss inventory management techniques—EOQ, VED, FSN.

(4 × 3 = 12 weightage)

Part C

Answer any **two** *questions,*
Each question carries 5 weightage.

15. Working capital requirement :

    Material 40%, Labour 30%, Overheads 30%

    Output : 2,20,000 units

    Selling price : Rs. 20

    Raw material storage : 1.5 months

    Processing : 1 month (full materials, 60% labour and overheads)

    Finished goods storage : 0.5 month

    Debtor credit : 2 months

    Creditor credit : 1 month

16. Compute cost of capital and WACC for :

- Debentures 11% : Rs. 8,00,000
- Preference 10% : Rs. 4,00,000
- Equity : Rs. 14,00,000

  Additional :

- Debenture price Rs. 102 ; flotation 2% ; life 10 years
- Preference price Rs. 105 ; flotation 3% ; life 10 years
- Equity price Rs. 28 ; next dividend Rs. 3 ; growth 6%
- Tax 30% :

17. Sales : Rs. 1,00,00,000

    Variable costs : Rs. 60,00,000

    Fixed costs : Rs. 15,00,000

    Debt : Rs. 40,00,000 @ 9%

    Equity Rs. 60,00,000

    Compute ROI, OL, FL and CL.

18. Explain legal rules governing payment of dividend in India.

(2 × 5 = 10 weightage)

D 131916–A **(Pages : 4)** **Name.......................................**

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Master of Commerce

MCM3C11—FINANCIAL MANAGEMENT

(2019 Admission onwards)

[Improvement Candidates need not appear for MCQ Part]

(Multiple Choice Questions for SDE Candidates)

Time : 20 Minutes	**Total No. of Questions : 20**	**Maximum : 5 Weightage**

INSTRUCTIONS TO THE CANDIDATE

1. This Question Paper carries Multiple Choice Questions from 1 to 20.
2. The candidate should check that the question paper supplied to him/her contains all the 20 questions in serial order.
3. Each question is provided with choices (A), (B), (C) and (D) having one correct answer. Choose the correct answer and enter it in the main answer-book.
4. The MCQ question paper will be supplied after the completion of the descriptive examination.

MCM3C11—FINANCIAL MANAGEMENT

(Multiple Choice Questions for SDE Candidates)

1. The cost of debt capital if interest rate is15 % and tax rate is 40 % is :

   (A) 6 %. (B) 8.5 %.

   (C) 9 %. (D) 10.5 %

2. Capital structure decisions should always aim at having debt component in order to :

   (A) Gain tax savings.

   (B) Gain control over the company.

   (C) Balance the capital structure.

   (D) Increase the earnings available for shareholders.

3. ———— refers to the minimum return expected by its suppliers

   (A) Trading on equity (B) Time value of money.

   (C) Cost of capital. (D) Capital gearing.

4. A company has earnings before interest and taxes of Rs. 1,00,000. It expects a return on investment at a rate of 12.5 %. What is the total value of the firm according to MM Theory ?

   (A) Rs. 6,00,000. (B) Rs. 7,00,000.

   (C) Rs. 8,00,000. (D) Rs. 9,00,000.

5. Which of the following statement is true according to traditional approach of capital structure ?

   (A) Cost of capital increases with the use of debt after a certain amount of debt and later falls.

   (B) Cost of equity and debt more or less remains constant with the use of debt up to a certain amount of debt.

   (C) Cost of declines and cost of debt remains constant with increase in debt.

   (D) Cost of equity declines and cost of debt increases with increase in debt

6. Which of the following statements regarding IRR are true ?

   (A) A project can have only one IRR.

   (B) If IRR is less than the firm's cost of capital, the project should be rejected.

   (C) A project can have multiple IRR depending on the cash flow streams.

   (D) Both (B) and (C).

7. For a project, benefit cost ratio is equal to one, then :
   - (A) IRR will be greater than one.
   - (B) IRR will be greater than discount rate.
   - (C) IRR will be less than discount rate.
   - (D) IRR will be equal to discount rate.
8. If NPV for a project is negative, then :
   - (A) IRR = Cost of capital.
   - (B) IRR > Cost of capital.
   - (C) BCR = 1.
   - (D) IRR < Cost of capital.
9. Under ———— method more than one forecast of the future cash inflows ie. Optimistic, pessimistic and most likely are made.
   - (A) Certainty equivalent method.
   - (B) Sensitivity technique.
   - (C) Standard deviation method.
   - (D) Co-efficient of variation method.
10. The cash inflows on account of operations are presumed to have been reinvested at the cut off rate in case of :
    - (A) Pay back method.
    - (B) NPV.
    - (C) Accounting rate of return.
    - (D) IRR.
11. The use of long term fixed interest bearing debt and preference share capital along with equity shares is called :
    - (A) Operating leverage.
    - (B) Financial leverage.
    - (C) Trading on equity.
    - (D) Both (B) and (C).
12. Which of the following qualitative aspect of financial planning ?
    - (A) Capitalization.
    - (B) Capital structure.
    - (C) Organization structure.
    - (D) None of these
13. According to which theory two identical firms in all respect except their capital structure can not have different market value or cost of capital because of arbitrage process :
    - (A) Net income approach.
    - (B) Net operating income approach.
    - (C) Traditional theory.
    - (D) MM approach.
14. The pay back period shows :
    - (A) Recovery period of original investment outlay.
    - (B) The time value of money.
    - (C) The cash inflows.
    - (D) None of the above.

15. Net salvage value of a fixed asset is :

    (A) Excess of salvage value over book value.

    (B) Excess of book value over salvage value.

    (C) Scrape value.

    (D) Salvage value of fixed assets less any income tax payable on the excess of salvage value over book value.

16. A cumulative preference share is one :

    (A) In which all the unpaid dividends are carried forward and payable.

    (B) Which can be converted into equity shares.

    (C) Which can be redeemed.

    (D) Which entitle the preference shareholders to participate in surplus profits and assets.

17. Which of the following is a determinant of working capital of a firm ?

    (A) Depreciation policy. (B) Taxes payable by the company.

    (C) Production policy. (D) All of the above.

18. Shelf stock refers to :

    (A) Perishable goods.

    (B) Items that are to be packaged and sold.

    (C) Stocks which is to be stored in the shelf.

    (D) Items that are stored by the firm and sold with little or no modification.

19. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be :

    (A) 10 % per annum. (B) 10.10 per annum.

    (C) 10.25 % per annum. (D) 10.38 % per annum.

20. Heterogeneous cash flows can be made comparable by :

    (A) Discounting technique. (B) Compounding technique.

    (C) Either (A) or (B). (D) None of the above.