**D 51186** **(Pages : 3)** **Name..................................**

**Reg. No...............................**

**THIRD SEMESTER M.Com. (CBCSS) [REGULAR/SUPPLEMENTARY] DEGREE EXAMINATION, NOVEMBER 2023**

M.Com.

MCM 3C 11—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours Maximum Weightage : 30

## Part A

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

1. What is Financial Management ?
2. X Ltd. is expecting an annual EBIT of Rs. 1 lakh. The company has Rs. 4 lakh in 10 % debentures. The cost of equity capital is 12.5 %. You are required to calculate the value of the firm according to Net Income Approach.
3. C Ltd. issues Rs. 1,00,000, 8 % debentures at a discount of 5 %. The tax rate is 50 %. Compute the cost of debt capital.
4. What are the different forms of dividend ?
5. What do you mean by cash management ?
6. What is trading on equity ?
7. What is operating leverage ?

(4 × 2 = 8 weightage)

## Part B

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

8. The following figures related to two companies :

| | | P. Ltd. (in lakhs) | Q. Ltd. (in lakhs) |
|---|---|---|---|
| Sales | ... | 500 | 1000 |
| Variable costs | ... | 200 | 300 |
| Contribution | ... | 300 | 700 |
| Fixed costs | ... | 150 | 400 |
| | | 150 | 300 |
| Interest | ... | 50 | 100 |
| Profit before tax | ... | 100 | 200 |

**Turn over**

You are required :

(a) Calculate the operating, financial and combined leverages for the two companies; and (b) Comment on the relative risk position of them.

9. Discuss the role and responsibilities of a finance manager.

10. Compute cost of debt capital for the following :—

    (a) X Ltd. issues Rs. 50,000 8 % debentures at par. The tax rate applicable to the company is 50 %.

    (b) Y Ltd. issues Rs. 50,000 8% debentures at a premium of 10 %. The tax rate applicable to the company si 60 %.

    (c) A Ltd. issues Rs. 50,000 8 % debentures at a discount of 5 %. The tax rate is 50 %.

    (d) B Ltd. issues Rs. 1,00,000 9 % debentures at a premium of 10 %. The costs of floatation are 2 %. The tax rate applicable is 60 %.

11. Using the following data calculate working capital requirement of A Ltd. :

| *Particulars* | | Rs. in 1000 |
|---|---|---|
| Credit sale | ... | 5000 |
| Total cost of sales | ... | 4000 |
| Cost of production | ... | 3000 |
| Purchases | ... | 3500 |
| Total raw material consumed | ... | 600 |
| Average raw material cost | ... | 80 |
| Average working progress | ... | 85 |
| Average finished goods stocks | ... | 180 |
| Average creditors | ... | 700 |
| Average debtors | ... | 350 |

12.

| | |
|---|---|
| Installed capacity | 1000 units |
| Operating capacity | 800 units |
| Selling price p.u. | 100 |
| Variable cost p.u. | 70 |

Calculate operating leverage if fixed costs are (a) Rs. 8000 ; (b) Rs. 12,000 ; (c) Rs. 15,000.

13. "Profit maximization approach is not operationally feasible." Discuss.

14. Discuss the factors relevant in determining capital structure.

(4 × 3 = 12 weightage)

## Part C

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

15. Firm has sales Rs. 50,00,000, variable cost of Rs. 28,00,000 and fixed cost of Rs. 4,50,000. It has a debt of Rs. 30,00,000 at 9 % and equity of Rs. 40,00,000 :

    (a) What is the ROI of the company ?

    (b) Does it have favourable financial leverage ?

    (c) If the company belongs to an industry whose asset turnover is 3, does it have high or low asset leverage ?

    (d) What are the operating, financial and combined leverages of the firm ?

    (e) If the sales drop to Rs. 35,00,000 what will be the new EBIT ?

    (f) At what level the EBT of the company will be equal to zero ?

16. H.B.P. Ltd. expects annual NOI of 200000. It has 500000 outstanding debt, cost of debt is 10 %. If the overall capitalization rate is 12.5 % what would be the total value of the firm and the equity capitalization rate according to NOI approach.

    What will be the effect of the following on the total value of the firm and equity capitalization rate.

    (a) The firm increases the amount of debt from 500000 to 750000 and uses the proceeds of the debt to repurchase equity shares.

    (b) The firm redeems debt of 250000 by issuing fresh equity shares of the same amount.

17. The following information is available in respect of a firm :

    Capitalization rate = 10 %

    Earnings per share = Rs. 50

    Assumed rate of return on investment :

    (i) 12 %.

    (ii) 8 %.

    (iii) 10 %.

    Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is (a) 0 % ; (b) 20 % ; (c) 40 % ; (d) 80 % ; (e) 100 %.

18. Explain various factors determining the working capital requirements.

(2 × 5 = 10 weightage)