19P366S (Pages: 2) Name……………………..

Reg. No…………………..

THIRD SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2020

(CUCSS-PG)

CC15P MC3 E(F)01 - FINANCIAL MANAGEMENT

(Commerce)

(2015 to 2018 Admissions – Supplementary/Improvement)

Time : Three Hours Maximum : 36 Weightage

PART A

Answer ***all*** questions. Each question carries 1 weightage.

1. Define Financial Management.
2. What is factoring?
3. What is lock box system?
4. Explain ‘trading on equity’.
5. What is arbitrage process?
6. What is EBIT-EPS Analysis?

(6 x 1 = 6 Weightage)

PART B

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

7. Discuss briefly the various sources of international finance.
8. ‘Profit maximization approach is not operationally feasible’. Discuss.
9. What are the determinants of working capital?
10. Explain the effect of MM theory on capital structure in absence of corporate taxes.
11. X ltd is likely to maintain growth rate of 9% for next four years and thereafter a constant rate of 7%. The company declared dividend of Rs.3.50 per share last year. If the shareholders’ expected rate of return is 16%, would you advice to buy the share at Rs. 50? (PV@16% for 1st year 0.862, 2^{nd} year 0.743, 3^{rd} year 0.641 and 4^{th} year 0.552).
12. A firm whose cost of capital is 10% is considering two mutually exclusive projects A and B, the cash flows of which are given below.

Year	Project A (Rs)	Project B (Rs)
0	-1, 00,000	-70,000
1	80,000	60,000
2	80,000	60,000

Suggest which project should be taken up using: (i) Net Present Value Method, (ii) Profitability Index Method. (PV factor @10% for years 0.909 and 0.826).

13. From the following data calculate (i) ROI, (ii) Operating Leverage, Financial Leverage and combined Leverage.

    Sales Rs. 75, 00,000, Variable Cost Rs. 42, 00,000, Fixed Cost Rs. 6, 00,000,

    Debt Rs.45, 00,000, Rate of Debt 9% Equity Capital Rs. 55, 00,000.

14. From the following capital structure of a company calculate the overall cost of capital using (a) book value weights and (b) market value weights.

Sources	Book Value	Market Value
Equity Share Capital (Rs.10 shares)	45,000	90,000
Preference Share Capital	10,000	10,000
Debentures	30,000	30,000
Retained earnings	15,000	

The after- tax cost of different sources of finance is as follows:

Equity Capital-14%, Retained earnings-13%, Preference Capital-10% and Debentures-5%.

(6 x 3 = 18 Weightage)

PART C

Answer any ***two*** questions. Each question carries 6 weightage.

15. Explain the factors affecting the working capital of a company.
16. Keerthi Finance LTD. has 15,000 equity shares outstanding as on 31-12-2016. Currently the share of the company is being traded at a price of Rs. 125 per share. It is expected that the firm should 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. (a) Value of the firm when dividends are paid and (b) Value of the firm when dividends are not paid.
17. A company's expected annual net operating income is Rs. 1, 00,000 and it has

    Rs. 3, 00,000, 8% debentures. The equity capitalization rate is 10%.

    (a) Calculate the value of the firm and overall capitalization rate.

    (b) Find out the impact on the value of the firm and overall capitalization rate by increasing the debt component by issue of new debentures to Rs. 4, 00,000 and decrease in debt by redemption of debentures to Rs.2, 00,000.

(2 x 6 = 12 Weightage)

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