

D 71493

(Pages : 2)

Name.....

Reg. No.....

**THIRD SEMESTER M.Com. DEGREE EXAMINATION, DECEMBER 2014**

(CUCSS)

**MC 3C 11—FINANCIAL MANAGEMENT**

(2010 Admissions)

Time : Three Hours

Maximum : 36 Weightage

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

1. What are the sources of long term finance ?
2. What is lease finance ?
3. What is gross working capital ?
4. What is EPS ?
5. Define capital structure.
6. What are the determinants of dividend policy ?

(6 × 1 = 6 weightage)

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

7. Write a note on FCCBs.
8. Compare and contrast ADR and GDR.
9. Write a note on convertible securities ?
10. Enumerate the role of Chief financial officer of a firm.
11. Write a note on any two of dividend theories.
12. How do you arrive at the optimal capital structure ?
13. A machine costing Rs. 110 lakh has a life of 10 years, at the end of which its scrap value is likely to be Rs. 10 lakh. The Firm's cut-off rate is 12 percent. The machine is expected to yield an annual profit after tax of Rs. 10 lakh, depreciation being reckoned on straight line basis for tax purposes. At 12 percent, the PV of the rupee received annually for 10 years is 5.650, and the value of one rupee received at the end of the tenth year is 0.322. Ascertain the NPV of the project.

**Turn over**

14. There are two options for painting a building. The first option involves a durable paint which lasts for 5 years and costs Rs. 1,00,000. The second option involves less than normal durable paint, which lasts 3 years and costs Rs.75,000. If the minimum required rate of return is 20%. What is the annual capital for the durable paint and less than normal durable paint options. Which option is better ? The present value of annuity of Re. 1 at 20 % for 3 years is 2.106 and 5 years is 2.991.  
(6 × 3 = 18 weightage)

### Section C

Answer any two questions.  
Each question carries 6 weightage.

15. How do you use statistical decision theory in evaluating capital budgeting decisions ? Explain.
16. The management of Gemini Ltd. has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the abovementioned activity level, is detailed below :

	Cost per unit
	Rs.
Raw materials ...	20
Direct labour ...	5
Overheads ...	<u>15</u>
Total cost ...	40
Profit ...	<u>10</u>
Selling price ...	<u>50</u>

Past trends indicate that the raw materials are held in stock, on an average, for two months. Work-in-process (50 percent complete) will approximate to ½ month's production. Finished goods remain in warehouse, on an average, for 1 month. Suppliers of materials extend 1 month's credit. Two month's credit is normally allowed to debtors. A minimum cash balance of Rs. 25,000 is expected to be maintained. The production pattern is assumed to be even during the year. Prepare a statement of working capital determination.

17. The following information has been extracted from the balance sheet of Fashions Ltd. As on 31-03-2010 :

	Rs.
Equity ...	4,00,00,000
12% Debentures ...	4,00,00,000
Term loan (interest at 18%) ...	<u>12,00,00,000</u>
Total ...	<u>20,00,00,000</u>

- (a) Determine the weighted average cost of capital of the company. It has been paying dividends at a consistent rate of 20% p.a.
- (b) What difference will it make if the current price of the Rs.100 share is Rs.160 ?

(2 × 6 = 12 weightage)