15P345 (Pages:2) Name……………………..

Reg.No……………………

THIRD SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2016

(CUCSS - PG)

CC15P MC3 E01 - Financial Management

(2015 Admission)

Time : Three Hours Maximum : 36 Weightage

PART A

(Answer ***all*** Questions.Each question carries **1** weightage)

1. What is meant by 'Unique Risk' in business?
2. Differentiate the term 'Dividend Yield' from 'Dividend Rate'
3. List out any four spontaneous sources of finance to firms
4. Differentiate between ADR and GDR
5. Mention the significance of 'Financial Break Even point' in capital budgeting decisions.
6. Specify the mathematical expression of cost of capital according to CAPM.

(6 x 1= 6 Weightage)

PART B

(Answer ***any six*** Questions, Each question carries **3** weightage)

7. Critically examine the irrelevance hypothesis of Modigliani and Miller regarding dividend distribution and market valuation of firms.
8. Briefly explain different concepts of cost of capital used in modern finance.
9. Bring out the merits and demerits of lease financing.
10. Examine the legal restrictions on the payment of dividend.
11. Describe the various models for determining optimal level of cash.
12. A company's present capital structure consists of 200,0000 equity shares of equity stock. It requires Rs. 10,000,000 of external financing for which it is considering three alternatives.

    Alternative A: Issue 500,000 equity shares of Rs. 10 par at Rs. 20 each

    Alternative B: Issue 300,000 equity shares of Rs. 10 pat at Rs. 20 each and 400,000 11% preference shares of Rs. 10 at par

    Alternative C : Issue 100,000 shares of Rs. 10 par at Rs. 20 each and Rs. 80,00,000 14% debentures .

    Assuming a tax rate of 40 per cent, what is EPS-EBT equation for the three alternatives? What is the financial indifference point of Alternatives A and B?
13. The earnings per share of a company is Rs 8 and the rate of capitalization applicable is 10 per cent. The company has before it, an option of adopting i) 0% ii) 50% and iii) 100% dividend payout ratio. Compute the market price of the company's quoted share as per Walters' model if it can earn a return of a) 15% and b) 5 % on its investments.

14. While preparing a project report on behalf of a client, you have collected the following facts. Estimate the investment in inventory required for the project:

Estimated cost per unit of production:	Amount per unit
Raw material	Rs. 120
Direct Labor	Rs. 80
Overheads	Rs. 60
Total	Rs. 170

Additional information: Level of activity 2, 08,000 units per annum. Raw materials in stockaverage4 weeks, Work in Progress (assume 50 per cent completion stage in respect of conversion costs and 100 per cent completion in respect of materials), average 2 weeks and finished goods in stock, average 4 weeks. You may assume that the production is carried on evenly throughout the year (52 weeks).

(6 x 3 = 18 weightage)

PART C

(Answer ***any two*** Questions, each question carries **6** weightage)

15. Analyze the factors to determine the optimum capital structure of a business. Make a note on various Theories of capital structure.
16. The following data relate to three firms are given to you. Compare the performance of firms based on their values of super leverage, EAT, EBIT and sales.

Firm	A	B	C
Financial leverage	3:1	4:1	2:1
Interest	Rs. 2 lakhs	Rs. 3 lakhs	Rs. 1 lakh
Operating leverage	4:1	5:1	3:1
Variable cost as % to sales	66.66	75%	50%
Income Tax	40%	40%	40%

17. Modern enterprises require 90,000 units of a certain sum annually. It costs Rs. 3 per unit. The cost per purchase order is Rs. 300 and inventory-carrying cost is 20 per cent per year.
    a. What .is Economic Order Quantity, if there is no quantity discount?
    b. What should be the firm do if the supplier offers discount as follows:

Order Quantity	Discount (%)
4500 -5999	2
6000 and above	3

(2 x 6 = 12 weightage)

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