17P361 (Pages: 3) Name……………………..

Reg. No…………………..

THIRD SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2018

(Regular/Supplementary/Improvement)

(CUCSS - PG)

CC15P MC3 E01 - FINANCIAL MANAGEMENT

(2015 Admission onwards)

Time : Three Hours Maximum : 36 Weightage

PART A

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

1. "Equity capital is cost free". Do you agree.
2. What do you mean by operating cycle concept of working capital?
3. What do you mean by ADRs and GDRs?
4. Distinguish between systematic and unsystematic risk.
5. Explain the term financial breakeven point.
6. Distinguish between liquidity and profitability.

(6 × 1 = 6 Weightage)

PART B

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

7. Explain the concept of financial leverage. Show the impact of financial leverage on the earnings per share.
8. Explain briefly the various cash management techniques.
9. What do you mean by working capital finance? Describe the short term sources of financing working capital.
10. Explain the dividend relevance theory under the Gordon Model.
11. X Ltd. details are as under :

Sales (@ 100 per unit)	Rs. 24,00,000
Variable Cost	50%
Fixed Cost	Rs. 10,00,000

It has borrowed Rs. 10,00,000 @ 10% p.a. and its equity share capital is Rs. 10,00,000 (Rs. 100 each). The company is in a tax bracket of 50%.

Calculate:

(a) Operating Leverage (b) Financial Leverage

(c) Combined Leverage (d) Return on Equity

(e) If the sales increases by Rs. 6,00,000 ; what will be the new EBIT?

 Turn Over

12. A firm had paid dividend at Rs. 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5 % p.a. Determine the estimated market price of the equity share if the estimated growth rate of dividends (i) rises to 8% and (ii) falls to 3 %. Also, find out the present market price of the share given that the required rate of return of the equity investors is 15.5%.

13. Your factory buys and uses a component for production at Rs. 10 per unit. Annual requirement is 2000 units. Carrying cost of inventory is 10 per cent p.a. and ordering cost is Rs. 40 per order. The purchase manager agrees that as the ordering cost is high, it is advantageous to place a single order for the entire annual requirement. He also says that if we order 2000 units at a time, we can get 3 per cent discount from the supplier. Evaluate his proposal and make your recommendation.

14. RL Ltd., has assets of Rs. 3,20,000. The sources of funds are:

Equity capital Rs. 1,80,000, General Reserve Rs. 36,000, Debt Rs. 1,04,000.

The company's total profits after interest and taxes for the year ended 31st March 2005 were Rs. 27,000. It pays 10% interest on debt and is in the 50% tax bracket. The Equity Share capital consists of 1800 shares of Rs. 100 each. Current market price of the share is Rs. 150. Calculate the Weighted Average cost of capital using market value weights.

(6 × 3 = 18 Weightage)

PART C

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

15. What do you mean by dividend policy? Discuss the factors determining the dividend policy of a business concern.

16. The following information has been extracted from the cost sheet of a company:

Raw materials.	Rs. 45
Direct labor.	Rs. 20
Overheads.	Rs. 40
Total Cost	Rs.105
Profit	Rs. 15
Selling Price	Rs.120

The following further information is available:

1. Raw materials are in stock on an average two months.

2. The materials are in process on an average for 4 weeks. The degree of completion is 50% in all respects.
3. Finished goods stock on an average is for one month.
4. Time lag in payment of wages and overheads is 1 ½ weeks.
5. Time lag in receipt of proceeds from debtors is 2 months.
6. Credit allowed by suppliers is one month.
7. 20% of the output is sold against cash.
8. The company expects to keep a cash balance of Rs. 10,000.
9. Take 52 weeks per annum.
10. Calculation of debtors may be made at a selling price.
11. The company is promised for a manufacture of 14,400 units in the year.

Prepare a statement showing the working capital requirements of the company.

17. M Ltd. Belongs to a risk class for which the capitalization rate is 10%. It has 25,000 outstanding shares and the current market price is Rs. 100. It expects a net profit of Rs. 2,50,000 for the year and the Board is considering dividend of Rs.5 per share. M Ltd. Requires to raise Rs. 5,00,000 for an approved investment expenditure. Show how the MM approach affects the value of M Ltd. if dividends are paid or not paid.

(2 × 6 = 12 Weightage)

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