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Name:

Reg.No:

THIRD SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2024

(CBCSS - PG)

(Regular/Supplementary/Improvement)

CC19P MCM3 C11 - FINANCIAL MANAGEMENT

(Commerce)

(2019 Admission onwards)

Time : 3 Hours

Maximum : 30 Weightage

Part-A

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

1. Define finance function.
2. What is mortgage backed securitisation?
3. What is WACC?
4. What is gross working capital?
5. What is financial leverage?
6. What is optimum capital structure?
7. What is meant by theory of relevance?

(4 × 2 = 8 Weightage)

Part-B

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

8. (a) A Ltd, issued Rs. 1,00,000 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.
(b) B Ltd, issued Rs. 1,00,000 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.
(c) 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.
(d) D Ltd, issues Rs. 2,00,000 9% debentures at a premium of 10%. The floatation costs are 2% The tax rate applicable is 60%. Compute cost of debt capital.
9. Discuss the role of a finance manager in a modern business enterprise.
10. What is IRR? How is it computed?
11. What are the merits and demerits of NPV technique?
12. What are the objectives of dividend policy?
13. Discuss the relationship between capital structure and capital budgeting.

14. For each of the following projects compute a) Payback period b) Post pay back profitability.

Project A

Initial outlay	Rs. 1,00,000
Annual Cash inflows (after tax but before depreciation)	Rs. 20,000
Estimated life 8 years	

Project B

Initial outlay	Rs. 1,00,000
Annual Cash inflows (after tax but before depreciation)	
First 3 years	Rs. 30,000
Next 5 years	Rs. 10,000
Estimated life 8 years	

(4 × 3 = 12 Weightage)

Part-C

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

15. A firm has the following capital structure and after tax costs for the different sources of funds used:

Source	Amount (Rs.)	Proportion (%)	After tax Cost (%)
Equity capital	6,75,000	45	15
Preference capital	3,75,000	25	10
Debt	4,50,000	30	7
Total	15,00,000	100	

i) Calculate the WACC based on book value weights

ii) The firm wishes to raise further Rs. 6,00,000 for the expansion of the project in the following manner:

Debit	Rs. 3,00,000
Preference Capital	Rs. 1,50,000
Equity Capital	Rs. 1,50,000

Compute weighted marginal cost of capital.

16. "The operative objective of FM is to maximise wealth or net present worth". Explain.
17. Define dividend policy. What are the various factors determining dividend policy?
18. A Ltd. is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested each costing Rs. 4,00,000. Earnings after taxation are expected to be as follows:

Cash Flows (Rs.)

Year	Machine A	Machine B
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on this basis, you are required to compare the profitability of the machine and state which alternative you consider financially preferable.

(2 × 5 = 10 Weightage)
