M 27270

Reg. No. : ....

Name : ....

Second Semester M.A./M.Sc./M.Com. Degree (Reg./Sup./Imp.) Examination, March 2015
Commerce
(2014 Admn. Onwards)
COM 2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** question in this Section. **Each** question carries **1** mark to Part **(a)** **3** mark to Part **(b)**, **5** mark to Part **(c)**.

I. a) What are the goals of financial management ?

b) Explain the role of finance manager.

c) What are the executive functions of financial management ?

II. a) What do you mean by the degree of financial leverage ?

b) What are the limitations of financial leverage ?

c) A firm's capital structure comprise the following securities

Equity share capital (Rs. 10 shares)	2,00,000
10% preference shares capital	2,00,000
9% debenture	2,50,000

The present EBIT is Rs. 1,00,000. Assuming that the firm is in 50% tax bracket. Compute the financial leverage.

III. a) What do you mean by arbitrage process ?

b) Critically evaluate M.M. theory.

c) There are two firms A and B which are exactly identical except that A does not use any debt in its financing, while B has ₹ 4,00,000, 10% debenture in its financing. Both the firms have earnings before interest and tax of ₹ 3,20,000 and the after tax capitalization rate is 16%. Assuming the corporate tax of 50%, calculate the value of the firm according to M.M. hypothesis.

P.T.O.

IV. a) State the different patterns of capital structure.

b) How will you calculate the financial breakeven point ?

c) A company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% debenture. The equity capitalisation rate of the company is 10% calculate the value of the firm and overall capitalization rate according to Net Income Approach (ignore income tax).

If the debenture debt is increased to ₹ 3,00,000 what shall be the value of the firm and the overall capitalisation rate ?

V. a) What is dividend pay out ratio.

b) Write a note on stable dividend policy.

c) X Ltd. is an established company having its share quoted in the major stock exchange. Its current share market price after dividend distributed at the rate of 20% p.a. having a paid up share capital of ₹ 40 lakhs of ₹ 10 each annual growth rate in dividend expected is 4%. The expected rate of return on its equity capital is 15%. Compute the value of XY Ltd's share based on Dividend Growth Model.

VI. a) Define receivables management.

b) Explain the cost of maintaining receivables.

c) Suresh & Co. is considering pushing up its sales by extending credit facilities to the following categories of customers.

a) Customers with a 15% risk of non-payment and

b) Customers with a 25% risk of non payment.

The incremental sales expected in the case of category (a) are ₹ 50,000 while in the case of category (b) they are ₹ 60,000. The cost of production and selling cost are 50% of sales while the collection cost amount to 7% of sales in the case of category (a) and 12% of sales in the case of category (b) You are required to advise the firm about extending credit facilities is each of the above categories of customer.

SECTION – B

Answer **any two** questions. **Each** carries **12** marks.

VII. a) Foods Ltd. is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase capacity utilization in the coming year by $33\frac{1}{3}$% over the existing level of production. The following data has been supplied.

i) Unit cost structure of the product at current level :

	Rs.
Raw material	4
Wages (variable)	2
Overheads (variable)	2
Fixed overheads	1
Profit	3
Selling price	12

ii) Raw material will remain at store for one month before being issued for production. Material will remain in process for further one month. Suppliers grant 3 months credit to the company.

iii) Finished goods remain is godown for one month.

iv) Debtors are allowed credit for 2 months.

v) Lag is wage and overhead payments is one month and there expenses accrue evenly throughout the production cycle.

vi) No increase either in cost of inputs or selling price is envisaged.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of ₹ 19,500 has to be maintained.

OR

b) Discuss the determinants of dividend policy.

VIII. a) X Ltd. is for seeing a growth rate of 12% per annum in the next two years. The growth rate is likely to fall to 10% for the third and fourth years. After that the growth rate is expected to stabilize at 8% per annum. If the last dividend paid was ₹ 1.50 per share and the investor's required rate of return is 16%. Find out the intrinsic value per share of X Ltd. as of date. You may use the following table

Years	0	1	2	3	4	5
P.V. factor at 16%	1	0.86	0.74	0.64	0.55	0.48

OR

b) Explain the tools and technique of inventory management. **(2×12=24)**
