K19P 0319

Reg. No.: ....

Name: ....

II Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, April 2019
(2014 Admission Onwards)
COM2C10 : FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (**a**). **3** marks for Part (**b**) and **5** marks for Part (**c**).

1. a) What are the objectives of finance function ?
   b) Write a note on profit maximization Vs wealth maximization.
   c) Critically analyse the functioning of financial manager in a large scale industrial establishment.

2. a) Define capital budgeting.
   b) Briefly explain the principles of capital budgeting.
   c) Company X is forced to choose between two machines A and B. The two machines are designed differently, but identical capacity and do exactly the same job. Machine A costs Rs. 3,00,000 and will last for 3 years. It cost Rs. 80,000 per year to run. Machine B is an economy model costing only Rs. 2,00,000 but will last 2 years and costs Rs. 1,20,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10%. Which machine company X should buy ?

   The present value of annuity for 2 years and 3 years at 10% is 1.735 and 2.486 respectively.

3. a) What is meant by financial leverage ?
   b) What is operating leverage ? How does it magnifying revenue of a firm ?
   c) A firm has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000 and fixed cost of Rs. 4,00,000 and debt of Rs. 10,00,000 at 105 rate of interest. What are the operating, financial and combined leverages ? If the firm wants to double its EBIT, how much of rise in sales would be needed on a percentage basis ?

P.T.O.

4. a) Write a short note on capital gearing.
   b) Give a critical appraisal of a traditional approach and MM approach to the problem of capital structure.
   c) There are two firms X and Y which are exactly identical that x does not use any debt in its financing. While Y has Rs. 1,00,000 5% debentures in its financing. Both the firms have EBIT of Rs. 25,000 and the equity capitalization rate is 10%. Assuming the corporate tax of 50% calculate the value of the firm using M and M approach.

5. a) What do you mean by dividend pay-out ratio ?
   b) Explain the various forms of dividends.
   c) An investor gains nothing from 'bonus shares'. Examine the statement critically.

6. a) What do you mean by operating cycle ?
   b) Explain the various factors affecting working capital decisions of a company.
   c) A company has a policy of maintaining a minimum cash balance of Rs. 1,00,000 the standard deviation in daily cash balance is Rs. 10,000. The interest rate on a daily basis is 0.01%. The transaction cost for each sale or purchase of securities is Rs. 50. Compute upper control limit and the return point as per Miller-Orr Model.

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks.

7. a) "The principal focus of finance is on decision and actions which affect the value of the firm". How can the financial management help to maximize it ?

   OR

   b) The following informations available in respect of a firm.

   Capitalization rate 10%

   EPS Rs. 50

   Assumed rate of return on investments

   i) 12%

   ii) 8%

   iii) 10%

   Show the effect of dividend policy on market price of share applying Walter's formula when dividend pay out ratio is (a) 0% (b) 20% (c) 40% (d) 80%.

8. a) ABC Ltd. Sells goods at a gross profit of 25% considering depreciation as part of the cost of production. Its annual figures are as follows.

	Rs.
Sales at two months credit	18,000,000
Materials consumed (suppliers extend two months credit)	4,50,000
Wages paid (monthly in arrear)	3,60,000
Manufacturing expenses outstanding at the end of the year	40,000
(cash expenses are paid one month in arrear)	
Total administrative expenses, paid as above	1,20,000
Sales promotion expenses, paid quarterly in advance	60,000

The company keeps one month's stock each of raw materials and finished goods and believes in keeping Rs. 1,00,000 in cash. Assuming a 15% safety margin, ascertain the requirements of working capital of the company on cash costs basis. Ignore work-in-progress.

OR

b) A firm has sales of Rs. 75,00,000, variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

i) What is the firm's ROI ?

ii) Dose it have favorable financial leverage ?

iii) What are the operating financial and combined leverages of the firm ?

iv) If the sales drop to the Rs. 50,00,000. What will be the new EBIT ?

v) At what level the EBT of the firm will be equal to zero ?