Reg. No. : ....

Name : ....

K22P 0214

II Semester M.Com. Degree (CBSS – Reg./Supple./Imp.) Examination, April 2022
(2018 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 (c).

1. a) What is operating leverage ?
   b) What are the principles of working capital management ?
   c) Discuss the three broad areas of financial decision making.
2. a) Define Financial Management.
   b) Explain the Arbitrage Process.
   c) Omega Company which earns ₹ 5 per share, is capitalised at 10% and has a return on investment of 12%. Using Walter's model, determine :
      i) The optimum pay-out ; and
      ii) The price of share when dividend pay-out is 0%.
3. a) What is optimal capital structure ?
   b) A company is expecting annual Earnings Before Interest and Tax (EBIT) of ₹ 5,00,000. The company in its capital structure has 12% debentures of ₹ 15,00,000. The cost of equity or capitalization rate is 16%. You are required to calculate the value of the firm and overall cost of capital according to the Net Income Approach.
   c) Explain the factors determining the capital structure.
4. a) Why is maximising wealth a better goal than maximising profit ?
   b) Explain the functional areas of financial management.
   c) Calculate operating leverage and financial leverage from the following data:

Sales (1,00,000 units)	₹ 2,00,000
Variable cost per unit	₹ 0.70
Fixed cost	₹ 65,000
Interest charges	₹ 15,000

P.T.O.

5. a) What are the motives for holding cash ?
   b) A company sells goods on cash as well as credit. From following particulars which are extracted from their book of accounts, calculate average collection period.

	₹
Gross total sales	4,00,000
Cash sales	80,000
Sales returns	28,000
Debtors at the end	36,000
Bills receivable at the end	8,000
Provision for doubtful debts	3,000
Total creditors at the end	25,000

   Take 365 days in a year

   c) A manufacturer buys certain equipment from outside suppliers at ₹ 30 per unit. Total annual needs are 800 units. The following further data are available:

   Annual return on investment, 10%

   Rent, insurance, taxes per unit per year,₹1

   Cost of placing an order ₹ 100

   Determine the Economic Order Quantity
6. a) "An investor gains nothing from bonus shares". Examine the statement critically.
   b) From the following information, determine the value of shares using Gordon's Model assuming the dividend pay-out ratio is 80%
      i) Rate of return on investment (r) = 15%
      ii) Cost of capital (k) = 12%
      iii) Earnings per share (E) = ₹ 10
   c) The annual cash requirement of A Ltd. is ₹10 lakh. The company has marketable securities in lot sizes of ₹ 50,000, ₹ 1,00,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 5,00,000. Cost of conversion of marketable securities per lot is ₹ 1,000. The company can earn 5% annual yield on its securities. You are required to calculate the economic lot size on the basis of Baumol Model. (4×9=36)

SECTION – B

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

7. a) Explain the irrelevance and relevance theory of dividend policy.

   OR

   b) Define Capital Structure. Explain the theories of capital structure.
8. a) Company X and Y are identical in all respects including risk factors except for debt/equity, X having issued 10% debentures of ₹18 lakh while Y has issued only equity. Both the companies earn 20% before interest and taxes on their total assets of ₹ 30 lakh. Assuming a tax rate of 50% and capitalisation rate of 15% for an all-equity company, Compute the value of companies X and Y using
      i) Net Income Approach and
      ii) Net Operating Income Approach.

   OR

   b) A proforma cost sheet of a company provides the following particulars:

Elements of Cost	
Raw materials	40%
Labour	10%
Overheads	30%

   The following further particulars are available:
   i) Raw materials are to remain in stores on an average 6 weeks
   ii) Processing time - 4 weeks (assume 50% completion stage with full material consumption)
   iii) Finished goods are required to be in stock on an average period - 8 weeks
   iv) Credit period allowed to debtors, on an average - 10 weeks
   v) Lag in payment of wages - 2 weeks
   vi) Credit period allowed by creditors - 4 weeks
   vii) Selling price – ₹ 50 per unit

   You are required to prepare an estimate of working capital requirements adding 10% margin for contingencies for a level of activity of 1,30,000 units of production. (2×12=24)