



K20P 0371

Reg. No. :

Name :

**II Semester M.Com. Degree (CBSS – Reg./Suppl./Imp.) Examination, April 2020
(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). (4×9=36)

1. a) Define Financial management.
b) Write a brief note on risk-return trade off.
c) Explain the objectives of Financial management.
2. a) Write a short note on trading on equity.
b) Explain briefly the features of an appropriate capital structure.
c) ABC Ltd., is expecting an annual EBIT of Rs. 2,00,000 the company in its capital structure has Rs. 8,00,000 in 10% debentures. The cost of equity or capitalization rate is 12.5%. You are required to calculate the value of firm according to NI approach. Also compare the overall cost of capital.
3. a) What is meant by operating leverage ?
b) What is combined leverage ? Explain its significance in financial planning of a firm.
c) 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 'ROI' ?
 - ii) Does it have favorable financial leverage ?
 - iii) What are the operating, financial and combined leverage of the firm ?
 - iv) If the sales drop to Rs. 55,00,000, what will be the new EBIT ?

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4. a) What do you mean by capital rationing ?
b) What are the four approaches to theory of capital structure ? Explain.
c) Discuss the various source of financing diversification schemes.
5. a) What is stable dividend policy ?
b) Explain the factors determine the dividend policy of a company.
c) The following information is available in respect of a firm.

Capitalization rate = 10%

EPS = Rs. 10

Assumed rate of return on investments

- i) 15%
- ii) 8%
- iii) 10%

Show the effect of dividend policy on the market price of shares, using Walter's model.

6. a) What are the objectives of cash management ?
b) Explain the objectives of receivable management.
c) Assume, a firm which purchases raw materials on credit is required by the credit terms to make payments within 30 days. On its side the firm allows its credit buyers to pay within 60 days. The firm's experience has been that it takes, on an average, 35 days to pay its accounts payable and 70 days to collect its accounts receivable. Moreover, 85 days elapse between the purchase of raw material and the sale of finished goods, that is to say, the average age of a firm's inventory is 85 days. What is the firm's cash cycle ? Also, estimate the cash turn-over.



SECTION – B

Answer the two questions in this Section. Each question carries 12 marks. (2×12=24)

7. a) What are the major types of Financial management decisions that business firms make ? Describe each.

OR

- b) A company wishes to determine the optimum capital structure. From the following selected information supplied to you, determine the optimal capital structure of the company.

Situation	Debt amount	Equity amount	After tax debt %	Ke%
1	4,00,000	1,00,000	9	10
2	2,50,000	2,50,000	6	11
3	1,00,000	4,00,000	5	14

8. a) From the following projections of XYZ & Co. for the next year, you are required to determine the working capital required by the company.

Annual sales 14,40,000

Cost of production (including depreciation 1,20,000) 12,00,000

Raw material purchases 7,05,000

Monthly expenditure 25,000

Estimated opening stock of raw material 1,40,000

Estimated closing stock of raw materials 1,25,000

Inventory norms,

Raw materials 2 months

WIP ½ months

Finished goods 1 month

The firm enjoys a credit of half a month on its purchases and allows one month credit on its supplies. On sales orders the company receives an advance of Rs. 15,000.

You may assume that production is carried out throughout the year and minimum cash balance desired to be maintained is Rs. 10,000.

OR



- b) The two companies X and Y belong to the risk class. They have everything in common except that firm Y has 10% debentures of Rs. 5,00,000. The valuation of the two firm's is assumed to be as follows :

	X	Y
EBIT	7,50,000	7,50,000
Interest on debt (I)	Nil	50,000
Earnings to equity holders (NI)	7,50,000	7,00,000
Equity capitalization rate	0.125	0.14
Market value of equity	60,00,000	50,00,000
Market value of debt	—	5,00,000
Total market value of the firm	60,00,000	55,00,000
Implied overall capitalization rate	<u>12.5%</u>	<u>13.63%</u>
Debt-equity ratio	0	0.1

An investor own 10% equity shares of the overvalued firm. Determine his investment cost to earnings the same income so that he is at a brake-even point ? Will he gain the undervalued firm ?