D3ACM1901 (4 Pages) **Name...............................**
Reg.No............................

THIRD SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2020
COMMERCE
FMCM3C11 - FINANCIAL MANAGEMENT

Time: Three Hours **Maximum Weightage: 30**

Part A: Answer any *four* questions. Each carries *two* weightage.

1. "Every firm wishes to maximize wealth much more than profit maximisation". Do you agree? Explain.
2. Following information is given about materials:

   Annual usage- ₹2,00,000

   Cost of placing and receiving one order- ₹80

   Annual Carrying Cost– 10% of inventory value

   Calculate the EOQ.

3. A company issues 10,000 10% Preference shares of ₹100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹2 per share. Compute the Cost of Preference Capital.
4. A Project under consideration by your company requires a capital investment of ₹60 lakhs. Interest on term loan is 10% p.a. and tax rate is 50%. Calculate the Indifference Point of EBIT for the project; if the Deb-Equity Ratio insisted by Financing agencies is 2:1.
5. Why do Companies follow a Stable Dividend Policy?
6. Mrs. Lalita deposits ₹5,000 at the beginning of each year for 5 years in a bank and the deposit earns a compound interest @ 8% p.a. Determine how much money she will have at the end of 10 years.
7. Highlight the importance of adequate Working Capital in a firm.

(4 × 2 = 8 weightage)

Part B: Answer any *four* questions. Each carries *three* weightage

8. Discuss the roles and responsibilities of a Finance Manager during times of Crisis.

9. Rose Ltd. pays a dividend of ₹0.75 per share during the last year. The company expects to pay ₹2 per share during the next year. Investors forecast a dividend of ₹3 per share in the year after that. Also, the dividend is expected to grow at 10% thereafter. Would you buy or sell the share, if the current price of the share is ₹54. The investors' required rate of return is 15%.

10. From the following data, ascertain which Company performs better based on the duration of their Operating Cycle-

Particulars	Company P Ltd. (₹)	Company Q Ltd. (₹)
Stocks:		
Raw Materials	40,000	60,000
Work-in-Progress	30,000	45,000
Finished Goods	25,000	38,000
Purchase/ Consumption of Raw Material	1,60,000	2,70,000
Cost of Goods sold	3,00,000	3,80,000
Sales (all credit)	3,60,000	4,32,000
Debtors	72,000	1,08,000
Creditors	20,000	27,000

Assume 360 days per year for computational purpose.

11. Shell Ltd. is considering three different options to finance its total project costing ₹100 lakhs. The options are:

Particulars	Plan A ₹(in Lakhs)	Plan B ₹(in Lakhs)	Plan C ₹(in Lakhs)
Equity (₹100 per share)	50	34	25
Debt (8% Debentures)	50	66	75

Sales for the first three years of operations are estimated at ₹100 lakhs, ₹125 lakhs and ₹150 lakhs respectively; and a 10% profit before interest and taxes is forecasted to be achieved. Corporate tax is taken at 50%. Compute EPS in all three plans and decide which plan gives more profit to Shell Ltd.

12. "The Payment of Dividend involves both legal and financial considerations". Keeping this in mind describe the determinants of dividend policy.

13. Compare and Contrast NPV and IRR.

14. Briefly explain different approaches to working capital finance.

(4 × 3 = 12 weightage)

Part C: Answer any *two* questions. Each carries *five* weightage

15. "Investment, financing and dividend decisions are inter-related". Comment.

16. LMN Co. has the following book value capital structure:

Particulars	₹(in million)
Equity Capital (10 million shares, ₹10 par)	100
Preference Capital, 11% (1,00,000 shares, ₹100 par)	10
Retained Earnings	120
Debentures, 13.5% (5,00,000 debentures, ₹100 par)	50
Term Loans, 12%	80
TOTAL	360

The next expected dividend per share is ₹1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is ₹20. Preference stock, redeemable after 10 years is currently being sold for ₹75 per share. Debentures, redeemable after 6 years are being sold for ₹80 per debenture. Tax rate for the company is 50%.

Determine the weighted average cost of capital using:

(a) Book Value Proportions

(b) Market Value Proportions

(P.T.O.)

17. Elucidate in detail the factors influencing Working Capital.

18. From the following, prepare an Income Statement of A,B and C.

Particulars	Company A	Company B	Company C
Financial Leverage	3:1	4:1	2:1
Interest	₹200	₹300	₹1,000
Operating Leverage	4:1	5:1	3:1
Variable Cost as a % of Sales	$66\frac{2}{3}$%	75%	50%
Income Tax Rate	45%	45%	45%

(2 × 5 = 10 weightage)