D3ACM2001 (2 Pages) Name............................
Reg.No..........................

THIRD SEMESTER M.Com DEGREE EXAMINATION, NOVEMBER 2021
(Regular/Improvement/Supplementary)

COMMERCE
FMCM3C11 - FINANCIAL MANAGEMENT

Time: 3 Hours **Maximum Weightage: 30**

Part A: *All* questions can be answered. Each carries *two* weightage (Ceiling 6 weightage).

1. Why are cash flows preferred over accounting profit in capital budgeting?
2. Explain the concept of permanent and temporary working capital.
3. What is marginal cost of capital?
4. What is the relationship between operating leverage and financial leverage?
5. Explain Gordon's approach to dividend policy.
6. Determine the present value of perpetuity ₹ 1,20,000 per year starting from the beginning for infinite period at an effective rate of interest 12% p.a.
7. P Ltd. received an order for supply of product from Q Ltd. for ₹ 10,00,000. Cost of sales is 80% of sales. It has been estimated that probability of non-recovery in case Q Ltd. is bankrupt is 25%. Determine whether P Ltd. should accept the order.

Part B: *All* questions can be answered. Each carries *four* weightage (Ceiling 12 weightage).

8. Explain the relevance of time value of money in financial decision making.
9. What is cash management? What are its objectives?
10. A Ltd. owns a machine which is six years old and has an estimated remaining life of two years. The following cash flow estimates have been made for the machine.

End of year	Net cash flow	Salvage value
6	-	₹1,20,000
7	₹80,000	₹60,000
8	₹50,000	NIL

Management wants to determine whether the machine should be retained for one more year or two more years. The company's required rate of return is 10%. Use NPV method.

11. Mr. F is planning to purchase the shares of Y Ltd. which had paid a dividend of ₹ 2 per share. Dividends are declining at a rate of 10%. What price would Mr. F be willing to pay for Y Ltd.'s share if his required rate of return is 20%?
12. The relevant information of X Ltd. for the financial year ended 2021 is given below:

Particulars	Amounts in ₹	
Sales	80,000	
Cost of goods sold	56,000	
	Opening balance	Closing balance
Inventory	9,000	12,000
Accounts receivable	12,000	16,000
Accounts payable	7,000	10,000

What is the length of the operating cycle?

13. A company expects a net operating income of ₹ 1,00,000. It has ₹5,00,000, 6% Debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization rate according to the Net Operating Income Approach.

(P.T.O.)

14. The earnings per share of a company are ₹10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5 %. If Walter's Model is used what should be the optimum payout ratio? What should be the price of the share at this payout ratio?

Part C: *All* questions can be answered. Each carries *six* weightage (Ceiling 12 weightage).

15. Explain the functions of a financial manager.
16. A firm has sales of ₹ 75,00,000, variable cost of ₹ 42,00,000 and fixed cost of ₹ 6,00,000. It has a debt of ₹ 45,00,000 at 9% and equity of ₹ 55,00,000.
    a. What is the firm's ROI?
    b. Does it have favourable financial leverage?
    c. If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?
    d. What are the operating, financial and combined leverages of the firm?
    e. If the sales drop to ₹ 50,00,000, what will be the new EBIT?

17. R Ltd. sells its products at a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31-3-2021.

	(Amount in ₹)
Sales (3 months credit)	40,00,000
Raw Materials	12,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing Expenses (one month in arrears)	12,00,000
Administration Expenses (one month in arrears)	4,80,000
Sales promotion Expenses (payable half yearly in advance)	2,00,000

The firm enjoys one month's credit from suppliers of raw materials and maintains two months stock of raw materials and one and a half months finished goods. Cash balance is maintained at ₹1,00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of R Ltd.

18. K Ltd. has 36,000 equity shares of ₹ 10 each outstanding. These are currently selling at ₹ 25. It also has 1200 debentures of ₹ 100 each bearing a coupon rate of 12%. Debentures are selling at ₹ 125 in the market. A dividend of ₹ 4 per share has just been paid on equity shares. The tax rate is 40% and growth rate is expected to be 6%. Calculate the weighted average cost of capital.