 Name............................
Reg.No..........................

THIRD SEMESTER M.Com DEGREE EXAMINATION, NOVEMBER 2022
(Regular/Improvement/Supplementary)

COMMERCE
FMCM3C11 - FINANCIAL MANAGEMENT

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

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

1. Why is consideration of the time value of money important in financial decision making?
2. Write short note on debt securitization.
3. What is credit policy?
4. Distinguish between operating leverage and financial leverage.
5. Explain Walter's approach to dividend policy.
6. Determine the present value of perpetuity ₹2,40,000 per year for infinite period at an effective rate of interest 12% p.a.
7. R Ltd. has annual sales of ₹ 3,65,00,000. The company has investment opportunities in the money market to earn a return of 15% p.a. If the company could reduce its float by 3 days, what would be the increase in company's total return?

(4 × 2 = 8 weightage)

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

8. What is Agency problem? How can this be resolved?
9. Explain various sources of working capital finance.
10. A company has to make a choice between two projects A and B. The initial outlays of the two projects are ₹2,70,000 and ₹4,80,000 respectively for A and B. The scrap values after 5 years are ₹10,000 and ₹30,000 respectively. The opportunity cost of capital of the company is 16%. Use profitability index.The annual cash flows are as under:

Year	Project A (₹)	Project B (₹)
1	-	1,20,000
2	60,000	1,68,000
3	2,64,000	1,92,000
4	1,68,000	2,04,000
5	1,78,000	2,10,000

11. Mr. B is planning to purchase the shares of X Ltd. His required rate of return is 20%. Dividends are declining at a rate of 10%. What dividend had X Ltd. paid last year if he is willing to pay ₹ 9 for X Ltd.'s share?
12. S Ltd. currently provides 36 days of credit to its customers. The present level of sales is ₹50 crore. The firm's cost of capital is 10% and the ratio of variable cost to sales is 0.8. The firm is considering to extend its credit period to 72 days. Such an extension is likely to push sales by ₹5 crore. The bad debt proportion on additional sales would be 8%. The firm is under 40% tax bracket. Should the credit period be extended?

(P.T.O.)

13. A company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% Debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the Net Income Approach.

14. Determine the market value of equity shares of the company from the following information as per Walter's Model:

Earnings of the company	₹5,00,000
Dividend paid	₹3,00,000
Number of shares outstanding	1,00,000
Price-Earnings ratio	8
Rate of return on investment	15%

Are you satisfied with the current dividend policy of the firm?

(4 × 3 = 12 weightage)

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

15. 'Financial management is more than procurement of funds'. Explain.

16. From the following, prepare Income Statement of company A and B.

	Company A	Company B
Financial leverage	3:1	2:1
Interest	200	1,000
Operating leverage	4:1	3:1
Variable cost as a percentage to sales	$66\,{}^{2}/_{3}$%	50%
Income tax rate	45%	45%

17. Prepare an estimate of working capital requirement from the following information of a trading concern:

a.	Projected annual sales (in units)	1,00,000
b.	Selling price (per unit)	₹8
c.	Percentage of net profit on sales	25%
d.	Average credit period allowed to customers	8 weeks
e.	Average credit period allowed by suppliers	4 weeks
f.	Average stock holding in terms of sales requirement	12 weeks
g.	Allow 10% for contingencies.	

18. Determine the weighted average cost of capital using book value weights based on the following.

Book Value Structure

14% Debentures (₹100 per debenture)	₹ 8,00,000
15% Preference Shares (₹100 per share)	₹ 2,00,000
Equity Shares (10 per share)	₹ 10,00,000

Recent market prices of all these securities are: Debentures: ₹110 per debenture; Preference Shares: ₹120 per share; Equity Shares: ₹22 per share.

Dividend expected at the end of the year is ₹2 per share. The anticipated growth rate of dividend is 7%. The company pays all its earnings in the form of dividends. The corporate tax rate is 40%.

(2 × 5 = 10 weightage)