THIRD SEMESTER M.Com DEGREE EXAMINATION, NOVEMBER 2023

(Regular/Improvement/Supplementary)

COMMERCE

FMCM3C11 - FINANCIAL MANAGEMENT

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

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

1. How can agency problem be controlled in financial management?
2. What is meant by financial engineering?
3. Why is working capital needed?
4. Write short note on indifference level.
5. What is the basis of dividend policy according to Walter?
6. A bank granted a loan of ₹5,38,000 repayable in 4 equated annual instalments beginning with the end of first year. Determine the amount of instalment if effective rate of interest is 18% p.a.
7. You are given the following information from the records of a firm:

Credit sales in a year	₹ 5,84,00,000
Saving in time due to concentration banking	4 days
Annual cost to maintain concentration banking system	₹ 60,000
Annual rate of borrowing	12% pa.

Advise whether the firm should opt for concentration banking or not?

(4 × 2 = 8 weightage)

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

8. What are basic financial decisions? How do they involve risk return trade off?
9. What is meant by receivable management?
10. An LED TV can be purchased by paying ₹ 50,000 now or ₹ 20,000 each at the end of first, second and third year respectively. To pay cash now, the buyer would have to withdraw the money from an investment, earning interest at 10% p.a. compounded annually. Which option is better and by how much, in present value terms?
11. The current market price of a share is ₹100. The firm's current earnings are ₹ 21crore and its share outstanding is ₹2 crore. It is contemplating to raise additional funds of ₹6 crore by issuing equity capital at a premium of 10%. The floatation cost is ₹5 per share. Compute the cost of equity capital.
12. A Company sells a product at ₹30 per unit with a variable cost of ₹20 per unit. The fixed costs amount to ₹6,25,000 per annum and the total annual sales to ₹75,00,000. It is estimated that if the present credit facility of one month were doubled, sales could be increased by ₹6,00,000 per annum. The Company expects a return on investment of at least 20% prior to taxation. Which is the better option?
13. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has ₹ 1,00,000, 5% Debentures in its financing. Both the firms have earnings before interest and tax of ₹25,000 and the equity capitalisation rate is 10%. Assuming the corporation tax of 50% calculate the value of the firm using MM approach.
14. The earnings per share of a company are ₹ 16. The market rate of discount applicable to the company is 12.5%.Retained earnings can be employed to yield a return of 10%. The

company is considering a payout of 25%, 50% or 75%. Which of these would maximize the wealth of shareholders if Gordon's formula is used?

(4 × 3 = 12 weightage)

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

15. Explain the importance of capital budgeting decision for a growing firm.
16. A limited company has the following capital structure:

Equity share capital (2,00,000 shares)	₹ 40,00,000
6% Preference share capital	₹ 10,00,000
8% Debenture	₹ 30,00,000

The market price of company's equity share is ₹20. It is expected that the company will pay current dividend of ₹2 per share and will grow at 7% forever. The tax may be presumed at 50%. You are required to compute:

(i) A weighted average cost of capital

(ii) The new weighted average cost of capital if the company raises an additional ₹20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹3 and leave the growth rate unchanged, but the price of share will fall to ₹15 per share.

17. Prepare a statement of working capital requirements of ABC Ltd. from the following information:

Share capital	₹ 15,00,000
8% Debentures	₹ 2,00,000
Fixed assets	₹ 13,00,000
Elements of cost:	
Material	40%
Direct labour	20%
Overheads	20%

The following further particulars are available:

(i) It is proposed to maintain a level of activity of 2,00,000 units p.a.

(ii) Selling price is ₹ 12 per unit.

(iii) Raw materials are expected to remain in stores for an average period of one month.

(iv) Materials will be in process, on averages half a month.

(v) Finished goods are required to be in stock for an average period of one month.

(vi) Credit allowed to debtors is two months.

(vii) Credit allowed by suppliers is one month.

(viii) Sales and production follow a consistent pattern.

18. The operating profit of MN Ltd. is ₹ 3,00,000. Its capital structure consists the following:

Equity share capital (₹ 100 each)	₹ 8,00,000
12 % Preference share capital	₹ 2,00,000
10 % Debentures	₹ 10,00,000
Tax rate	40%

Determine:

(i) Firm’s EPS.

(ii) Percentage change in EPS associated with 30% increase in EBIT.

(iii) Degree of financial leverage.

(iv) The degree of combined leverage if operating leverage is 2.

(2 × 5 = 10 weightage)