D3ACM2301 **(3 Pages)** **Name.....**

Reg.No.....

THIRD SEMESTER M.Com DEGREE EXAMINATION, NOVEMBER 2024

(Regular/Improvement/Supplementary)

COMMERCE

FMCM3C11 - FINANCIAL MANAGEMENT

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

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

1. Define Systematic risk. Give two examples.
2. Equity capital is cost free. Do you agree?
3. What is the significance of Current assets to Fixed assets ratio?
4. What is lock-box system? How does it help to cash management?
5. A firm has a ₹84 lakh balance available in its bank account. It receives a cheque of ₹50 lakh that it records in its books and deposits in the bank. It will take 3 days for the amount to be credited to the firm's bank account. How much is the deposit (collection) float?
6. A 10 year, ₹1000/- debenture of a firm can be sold for a net price of ₹977/-. The rate of interest is 14% per year, and bond will be redeemed at par on maturity. The firm's tax rate is 30%. Compute the after-tax cost of the debenture.
7. A company has equity beta of 1.45. The risk-free rate is 9% and the market risk premium is 10%. What is the cost of the company's equity?

(4 × 2 = 8 weightage)

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

8. What is the net income approach? What are its assumptions?
9. Explain the objectives of a firm's dividend policy.
10. XY company is a fast-growing firm. In the past, the firm has earned a return of 25% on its investments and this trend is likely to continue. The firm has been retaining 25% of its earnings and paying 75% of earnings as dividends. This policy has been justified on the grounds that dividends are generally preferred over retained earnings by shareholders. Would you recommend a change in the dividend policy? Why?
11. Firm Z has EBIT of ₹1200 lakh, PBT of ₹480 lakh and fixed costs of ₹600 lakh. What is the percentage change in EPS if sales increase by 5%.
12. A firm's credit sales are ₹300 crore. Its average collection period is 45 days. What is the firm's average investment in accounts receivable?
13. Suppose that a firm has no debt in its capital structure. It has an expected annual net operating income of ₹100,000/- and the equity capitalization rate k_e of 10%. Let us assume that the firm changes its capital structure replacing equity by debt of ₹3,00,000

(P.T.O.)

at 7% interest rate. Assuming net income approach, what is the firm's weighted average cost of capital? What is its value?

14. L- the levered firm has 9 % ₹40 lakh loan outstanding. U is an unlevered firm. Both firms have assets of ₹100 lakh and 15% EBIT- to assets ratio. Assume a corporate tax rate of 30% and a pure equity capitalization rate of 12%. Compute the total value of the firms using: (i) the NI approach; (ii) the NOI approach.

(4 × 3 = 12 weightage)

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

15. What are the basic Financial decisions? How do they involve risk-return trade-off?

16. A company needs ₹5,00,000/- for construction of a new plant. The following three financial plans are feasible: (i) The company may issue 50,000 ordinary shares at ₹10 per share. (ii) The company may issue 25,000 ordinary shares at ₹10 per share and 2,500 debentures of ₹100 denominations bearing a 8% rate of interest. (iii) The company may issue 25,000 ordinary shares at ₹10 per share and 2,500 preference shares at ₹100 per share bearing a 8% rate of dividend.

    If the company's earnings before interest and taxes are ₹10,000/-, ₹20,000/-, ₹40,000/-, ₹60,000/- and ₹1,00,000/-, what are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Determine the indifference points by formulae and graphically. Assume a corporate tax rate of 50%.

17. A firm's estimated demand for a material during the next year is 2,500 units. Acquisition costs are ₹400 per order and carrying cost is ₹50 per unit. The safety stock is set at 25% of the EOQ. The daily usage is 10 units and lead time is 10 days. Determine: (a) the EOQ, (b) the safety stock and (c) the recorder point.

18. Two companies – Alpha Ltd. and Beta Ltd. are in the same industry with identical earnings per share for the last five years. The Alpha Ltd. has a policy of paying 40% of earnings as dividends, while the Beta Ltd. pays a constant amount of dividend per share. There is disparity between the market prices of the shares of the two companies. The price of Alpha's share is generally lower than that of Beta, even though in some years Alpha paid more dividends than Beta. The data on earnings, dividends and market price for the two companies are as under:

Alpha Ltd.

Year	EPS ₹	DPS ₹	Market Price ₹
2019	4.00	1.60	12.00
2020	1.50	0.60	8.50
2021	5.00	2.00	13.50
2022	4.00	1.60	11.50
2023	8.00	3.20	14.50

Beta Ltd.

Year	EPS ₹	DPS ₹	Market Price ₹
2019	4.00	1.80	13.50
2020	1.50	1.80	12.50
2021	5.00	1.80	12.50
2022	4.00	1.80	12.50
2023	8.00	1.80	15.00

(i) Calculate: (a) payout ratio; (b) dividend yield; (c) earning yield for both the companies.
(ii) What are the reasons for the differences in the market prices of the two companies' shares?
(iii) What can be done by Alpha Ltd. to increase the market price of its shares.

(2 × 5 = 10 weightage)