M.Com.(A&F)DEGREE EXAMINATION,NOVEMBER 2018

I Year I Semester

Core Major -III

FINANCIAL MANAGEMENT

Time : 3 Hours **Max.marks :75**

Section A $(10 \times 2 = 20)$ Marks

Answer any **TEN** questions

1. Define financial Management.
2. Mention any three objectives of Financial Management.
3. What is cost of capital?
4. What is composite leverage?
5. What is optimum capital structure?
6. Expansion of IRR.
7. What is uncertainty?
8. What is dividend?
9. What are the essentials of Walter's dividend model?
10. Write any two types of dividend.
11. Define working capital?
12. What do you understand by short-term finance?

Section B $(5 \times 5 = 25)$ Marks

Answer any **FIVE** questions

13. Briefly explain the scope of financial management.
14. Sri Ram Industries Ltd. issued 10,000 10% debentures of Rs.100 each. The tax rate is 50%. Calculate the before tax and after tax cost of debt if the debentures are issued (a) at par: (b) at a Premium of 10 % and (c) at a discount of 10%.
15. From the following information, calculate operating leverage:

No. of units produced and sold :	30,000
Selling price per unit:	Rs.20
Variable cost per unit:	Rs.10

Fixed cost per unit at current level of sales is Rs. 5. What will be the new operating leverage if the variable cost is Rs.12.

16. A project costs R. 20 lakh and yields annually a profit of Rs. 3 lakh after depreciation at $12\frac{1}{2}\%$ but before tax at 50%. Calculate payback period.

17. The following information relates to Siddle Ltd.

EPS	Rs.10
IRR	18%
Cost of capital	20%
Payout ratio	40%

Compute the market price under the Walter's model.

18. The earnings per share of a company are Rs.10. the rate of capitalization is 10% and the retained earnings can be employed to yield a return of 20%.

The company is considering a payout of a).20% b).40% and c).60%. which of the these would maximize the wealth of the shareholders as per Walter's model?

19. Kamath Ltd. is engaged in customer retailing. You are required to forecast its working capital requirements from the following information.

Projected annual sales	Rs.6,50,000
Percentage of N.P on cost of sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks
Add 20% to allow for contingencies	

Section C $(2 \times 15 = 30)$ Marks

Answer any **TWO** questions

20. How the financial management interfaces with other areas ? what are they?

21. Company A and Company B are in the same risk class and identical. In all respects except that company A uses debt. While company B does not. Levered company has Rs.20 lakh debentures. Carrying 12% rate of interest. Both companies earn 20% before interest and taxes on their total assets of Rs.50 lakh. Assume perfect capital markets, tax rate of 50% and capitalization rate of 10% for equity company. Compute the value of both companies under (a) Net Income(NI) approach; and (b) net operating Income (NOI) approach.

22. From the following, prepare income statement for company Joe and Terry

	Joe co.	Terry co.
Financial leverage	3:1	4:1
Interest (Rs.)	30,000	90,000
Operating leverage	4:1	5:1
Variable cost as a percentage of sales	70%	60%
Income tax	50%	50%

23. The following information has been extracted from the records of a company:

Product cost	(Rs.per unit)
Raw materials	45
Direct labour	20
Overheads	40
Total cost	105
Profit	15
Selling price	120

a. Raw materials are in stock on average for two months

b. The materials are in process on an average 4 weeks. The degree of completion is 50%

c. Stock of finished goods on an average is one month.

d. Time lag in payment of wages and overheads is $1\frac{1}{2}$ weeks.

e. Time lag in receipt of proceed from debtors is 2 months

f. Credit allowed by suppliers is one month

g. 20% of the output is sold against cash

h. The company expects to keep a cash balance of Rs.1,00,000

i. Take 52weeks per annum.

The company is poised for a manufacturer of 1,44,000 units in the year.

You are required to prepare a statement showing the working capital requirements of the company.