Reg. No .... Name **17P136**

M. COM DEGREE END SEMESTER EXAMINATION- NOVEMBER 2017

SEMESTER 1 : COMMERCE

COURSE : **16P1COMT03 ; FINANCIAL MANAGEMENT PRINCIPLES**

(Common for Regular - 2017 / Supplementary - 2016 Admissions)

Time : Three Hours Max. Marks: 75

Section A
Answer any 10 (2 marks each)

1. Define Finance.
2. What do you mean by Wealth maximisation?
3. What is opportunity cost?
4. Compare and contrast Specific cost and Composite cost.
5. What do you mean by floating rate of debt?
6. Y Ltd retains ₹ 7,50,000 out of its current earnings. The expected rate of return to the shareholders, if they had invested the funds elsewhere is 10%. The brokerage is 3% and the shareholders come in 30% tax brackets. Calculate cost of retained earnings.
7. What is meant by Optimum capital structure?
8. What do you mean by Capitalisation?
9. What is systematic risk?
10. What is financial structure?
11. What do you mean by Decision tree?
12. How will you compute degree of operating leverage?

(2 x 10 = 20)

Section B
Answer any 5 (5 marks each)

13. (a) Mr. Vishnu makes an initial deposit of ₹ 50,000 with SBI. Interest is compounded at 10% p.a. for six years. Compute the amount on maturity.
(b) Mr. Rahul enters into an agreement to deposit ₹ 25,000 p.a. for four years to a financier who will allow 8% interest p.a. and repay the amount at the end of four years. What amount will Rahul receives at maturity?
14. The capital structure of ABC Ltd is equit capital ₹ 5 lakh, Reserve and surplus ₹ 2 lakh and Debenture ₹ 3 lakh. The cost of capital before tax are
a. Equity - 18%
b. Debentures - 10%
You are required to compute the WACC assuming a tax rate of 35%
15. What is weighted average cost of capital? How is it computed?

16. The following data relates to four Four firms:-

Firm	A	B	C	D
EBIT in ₹	2,00,000	3,00,000	5,00,000	6,00,000
Interest in ₹	20,000	60,000	2,00,000	2,40,000
Equity capitalisation rate	12%	16%	15%	18%

Assuming that there are no taxes and rate of debt is 10%, determine the value of each firm using the Net Income approach. Also determine the overall cost of capital of each firm. What happens if Firm A borrows ₹ 2 Lakhs at 10% to repay equity capital?

17. Compare and constrast NOI theory and NI theory.

18. Explain the relevance of Time value of Money in financial decisions.

19. The following figures relate to two companies. You are required to:-
1. Compute the Operating, Financial and Combined Leverages for the two companies and
2. Comment on their relative risk positon.

Particulars	P Ltd (in ₹ Lakhs)	Q Ltd (in ₹ Lakhs)
Sales	500	1000
Variable cost	200	300
Fixed cost	150	400
Interest	50	100

20. Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage for the following firms and interpret the results.

Firm	P	Q	R
1. Output	3,00,000	75,000	5,00,000
2. Fixed costs (₹)	3,50,000	7,00,000	75,000
3. Unit variable costs (₹)	1.00	7.50	0.10
4. Interest expenses (₹)	25,000	40,000	-
5. Unit selling price (₹)	3.00	25.00	0.50

(5 x 5 = 25)

Section C
Answer any 3 (10 marks each)

21. From the following information, compute WACC of SG Ltd. (Assume Tax = 35%)

- Debt to Total Funds: 2:5
- Preference Capital to Equity Capital: 1:1
- Preference Dividend Rate 15%
- Interest on Debenture: ₹ 20,000 for half year
- EBIT at 30% of Capital employed: ₹ 3,00,000
- Cost of Equity Capital is 24%

22. The net operating income of Mahim Ltd is ₹ 6,00,000. The company has issued 12% debentures of ₹ 5,00,000. The overall capitalisation rate has been estimated at 15%.
(a) Compute the value of the firm and equity capitalisation rate under NOI approach.
(b) Find out the value of the firm and equity capitalisation rate if:
   1. The company makes further isssue of 12% debentures of ₹ 2,00,000
   2. The company redeems half of its existing debentures.

23. A company is planning to purchase a machine. Two models are available A and B. Machine A cost ₹ 2,00,000. Machine B costs ₹ 3,50,000. The annual cash inflow due to installation of the machine has worked out as follows:

Year	**Machine A Cash Inflow**	**Machine B Cash inflow**
1	40,000	65,000
2	40,000	60,000
3	40,000	55,000
4	30,000	50,000
5	30,000	45,000
6	30,000	30,000
7	20,000	30,000
8	20,000	20,000
9	10,000	20,000
10	10,000	20,000

Using payback period method, determine which machine should be purchased?

24. Briefly explain the different methods of ranking investment proposal.

25. From the following, prepare income statement of Company A, B and C.

	Company A	**Company B**	**Company C**
Financial leverage	3 : 1	4 : 1	2 : 1
Interest	₹ 200	₹ 300	₹ 1000
Operating Leverage	4 : 1	5 : 1	3 : 1
Variable cost as % age of sales	$66\frac{2}{3}$ %	75%	50%
Income tax rate	45%	45%	45%

(10 x 3 = 30)