Reg. No……………………… Name: …………………………………**Q. Code: P134**

M COM DEGREE END SEMESTER EXAMINATION 2014 -15
SEMESTER -1: COMMERCE
COUSE: PICOMT03 - FINANCIAL MANAGEMENT PRINCIPLES

Time: Three Hours Maximum:75Marks

SECTION A

Answer all questions

1. What do you understand by Financing Function?

2. What do you mean by Annuity?

3. Define Capital Budgeting

4. What is Sweat Equity?

5. What do you mean by Marginal Cost of Capital?

6. State the assumptions of MM Theory

7. What is Financial Leverage?

8. From the following information compute percentage change in EPS when the sales are expected to decline by 5 % EBIT Rs. 120000, Contribution Rs. 40000, Interest Rs. 10000.

9. Paragon Ltd wants to know the present value of Rs. 100000 which will be received after 5 year as per a scheme. Assuming interest rate of 8 %, determine the present value of the amount.

10. What is Capital Rationing?

(10 x 2 = 20)

SECTION B

Answer any **five** questions

11. Compare NPV and IRR methods of capital budgeting

12. What are the criticisms to the goal of profit maximization?

13. What are the merits and demerits of using equity capital?

14. Following are the cost information of a firm:

Fixed Cost Rs. 100000; Variable cost – 80 % of sales; sales Rs. 800000 during the previous year and Rs. 1200000 during the current year. Compute the degree of operating leverage. What will be your answer if there is no fixed cost?

15. The annual net operating income of Melam Ltd is Rs. 400000. The company has 11 % debentures of Rs. 300000. Assuming overall capitalization rate of 20 %.

a. Compute the value of the firm and the equity capitalization rate on the basis of net operating income approach

b. What will the valuation of the firm if the company increases the debenture capital from Rs. 300000 to Rs. 500000? Also find out the equity capitalization rate after fresh issue of debentures.

16. Tata Ltd. has a net operating income of Rs. 500000. It has 10 % debentures of Rs. 2 0000000/- . The cost of equity capital has been estimated at 15 %. Compute the value of the firm according to Net Income Theory. Also compute the overall cost of capital of the company.

17. Project Cost Rs. 1200000; Duration of the project – 4 years ; Expected annual cash inflow at the end of every year Rs. 400000; Discount rate10%;The firm can reinvest the cashinflows at the rate of 8 %. Comment on the feasibility of the project, based on Terminal value method.

18. A company has a sale of Rs. 200000. The variable costs are 40 % of the sales, while the fixed operating cost amount to Rs. 60000. The amount of interest on long term debt is Rs. 20000. Calculate the combined leverage and illustrate its impact if sales increase by 5 %.

(5 x 5 = 25)

SECTION C

Answer **any two** questions

19. The expected cash flows of a project are as follows:

Year	Cash flow
1	-100000
2	20000
3	30000
4	40000
5	50000
6	30000

The cost of capital is 12 Per cent. Calculate the following

a. Net present Value

b. Benefit – Cost Ratio
c. Internal Rate of Return
d. Modified Internal rate of Return
e. Payback period and
f. Discounted Payback Period

20. AB Limited provides You the following figures:

Profit (earnings before interest and taxes)		Rs. 300000
Less: Interest on debentures @ 12 %		Rs. 60000
Profit after tax:	Rs. 240000	
Income Tax @ 50 %	Rs. 120000	
	Rs. 120000	
Number of Equity shares (Rs. 10 each)	40000	
EPS (earnings per share):	Rs. 3	
Ruling Price in Market:	Rs. 30	
PE Ratio (Price/ EPS)	10	

The company has undistributed reserves of Rs. 600000. The company needs Rs. 200000 for expansion. This amount will earn at the same rate as funds already employed. You are informed that a debt equity ratio Debt/ (Debt + Equity) higher than 35 % will push the P/E ratio down to 8 and raise the interest rate on additional amount borrowed to 14 %. You are required to ascertain the probable price of the share:

1. If the additional funds are raised as debt; and
2. If the amount is raised by issuing equity shares.

21. Critically evaluate the goals of maximization profit and maximization of return on equity

22. Discuss the relationship between financial leverage and cost of capital as per the net income approach, net operating income approach, and traditional approach (2 x 15 = 30)