Reg. No………..…...……...…..……… Name : ………...…………..………… **P 134**

MCOM DEGREE END SEMESTER EXAMINATIONS – NOVEMBER 2015

SEMESTER- 1, SUBJECT: COMMERCE

COURSE: P1COMT03 – FINANCIAL MANAGEMENT PRINCIPLES

Time: Three Hours Max. Marks: 75

SECTION – A

(Answer **all** questions in this section. Each question carries 2 marks)

1. What do you mean by Risk-return Trade-off?
2. What do you mean by Sweat equity shares?
3. Explain Retained earnings
4. What is Marginal Cost of Capital?
5. What do you mean by Optimum capital structure?
6. Explain the concept of financial leverage?
7. What is Financial Break-even point?
8. What do you mean by variable working capital?
9. What do you mean by Scrip dividend?
10. What do you mean by Stock split? (2 x 10 = 20)

SECTION – B

(Answer any **five** questions from this section. Each question carries 5 marks)

11. A company issues 20,000 10% Debentures of Rs. 100 each at a discount of 8%, redeemable after 10 years. The cost of floatation amounts to Rs. 40,000. Calculate after tax the cost of debt capital, assuming the rate of tax as 40%.
12. The capital structure of Firari Ltd. consists of 1,00,000 Equity shares of Rs. 100 each and 12% debentures of Rs. 20,00,000. Sales during the year 2014-15 was Rs. 25,00,000. Fixed cost and variable cost during this period were Rs. 5,00,000 and Rs. 15,00,000 respectively. You are required to calculate Composite leverage.
13. From the following details related to the capital structure of Naipunya Ltd., calculate the Weighted Average cost of capital

Source of Finance	Amount	Cost of Capital (After tax)
Equity Share Capital	684,000	12%
Preference Share Capital	570,000	8%
Retained Earnings	570,000	11%
Debentures	456,000	4%

Total	2,280,000	

14. What are the criticisms of profit maximisation?
15. Critically examine the Cost Theory of Capitalisation.
16. What is overcapitalisation? How it differs from undercapitalisation? Which situation is ideal to a firm?
17. Explain Net income theory of capital structure
18. Explain the consequences of deficiency of working capital in a firm

(5 x 5 = 25)

SECTION – C

(Answer any **two** questions from this section. Each question carries 15 marks)

19. What do you mean by ploughing back of profits? Do you think that its cost of capital is cheaper or cost free? Explain your answer by comparing it with other sources.
20. Explain the indicators, causes and effects of undercapitalisation?
21. The capital structure of Bright Lights Ltd. consists of 16% 8,000 debentures of Rs. 100 each and 10,000 equity shares of Rs. 100 each. Assuming the corporate tax as 40%, calculate EPS and Financial Leverage when operating profit (EBIT) is (a) Rs. 4,00,000 (b) Rs. 6,00,000 and (c) Rs. 8,00,000.
22. Infopark Ltd. is considering to invest in a project having an initial investment of Rs. 2,00,000. Forecasted annual income after depreciation but before tax during the life of the asset is as follows:

Year	1	2	3	4	5	Total
Income (Rs.)	100,000	100,000	80,000	80,000	40,000	4,00,000

Assume the tax rate as 50%, cost of capital as 10% and the depreciation provided by the company is at the rate of 20% under fixed instalment method. You are required to evaluate the project according to each of the following methods.

a) Payback Period Method
b) Average rate of Return Method
c) Net Present Value Method

(15 x 2 = 30)

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