Reg. No............................ Name..............................

M.COM. DEGREE END SEMESTER EXAMINATION NOVEMBER 2016

SEMESTER **– 1: COMMERCE**

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

Time: Three Hours Max. Marks: 75

SECTION - A

Answer **any TEN** Questions. Each question carries **2** marks

1. What is Financial Management?
2. What is meant by time value of money?
3. What is capital budgeting decision?
4. What is optimum capital structure?
5. What is operating leverage?
6. Distinguish between Indifference point and financial breakeven point.
7. ABC Ltd. issues 20,000, 8% preference shares of Rs. 100 each at a premium of 5% redeemable after 8 years at par. The cost of issue is Rs.2 per share. Calculate the cost of preference share capital.
8. What do you mean by Capital Rationing Decisions?
9. What is IRR?
10. What is CAPM?
11. X Ltd. Decided to issue 8 year 9% debentures of Rs. 100 each at premium of 5%.The underwriting commission and other issue expenses together amounted to 3%. Tax rate is 35%. Compute cost of debt.
12. Find out the financial leverage from the following data:Net Worth Rs.25,00,000; Debt/Equity 3: 1; Interest rate 12% ;Operating Profit Rs.20,00,000

(2 x 10 = 20)

SECTION - B

Answer **any Five** Questions. Each question carries **5** marks

13. A firm deposits Rs.50 lakhs at the end of each year, for 4 years at the rate of 6 per cent interest and compounding is done on a quarterly basis. What is the compound value at the end of the 4th year?
14. Explain the concept of wealth maximization objective. In what respect the wealth maximization objective can be justified as a main objective.
15. Define Payback period. What are the merits and demerits of Payback period Method?
16. A firm finances all its investments by 40 per cent debt and 60 per cent equity. The estimated required rate of return on equity is 20 per cent after-taxes and that of the debt is 8 per cent after-taxes. The firm is considering an investment proposal costing Rs 40,000 with an expected return that will last forever. What amount (in rupees) must the proposal yield per year so that the market price of the share does not change? Show calculations to prove your point.
17. A Ltd intends to issue new equity shares. It's present equity shares are being sold in the market at Rs 125 a share. The company's past record regarding payment of dividends is as follows. 1984:10.70%; 1985:11.45%; 1986:12.25%; 1987:13.11%; 1988:14.03%. The floatation costs are estimated at 3% of the current selling price of the shares. You are required to calculate:
    (a) Growth rate in dividends.
    (b) Cost of funds raised by issue of equity shares assuming that the growth rate as calculated under (a) above will continue forever.
    (c) Cost of new equity shares.
18. The following information is available for Janatha Co.

EBIT	Rs. 11,20,000
Profit before Tax	Rs. 3,20,000
Fixed costs	Rs. 7,00,000

    Calculate % change in EPS if the sales are expected to increase by 5%.
19. Define cost of equity. Mention various methods of computing cost of equity?

20. What is financial Planning? Briefly explain the principles governing a sound financial plan.

(5 x 5 = 25)

SECTION - C

Answer **any Three** Questions. Each question carries **10** marks

21. What do you mean by Finance function? Briefly explain the contents of finance functions.
22. What is meant by capital structure? Explain the factors affecting capital structure of a firm?
23. Calculate the level of EBIT at which the indifference point between the following financing alternative will occur:
    a) Ordinary share capital Rs 10,00,000 or 15% debentures of Rs 5,00,000 and ordinary share capital of Rs 5,00,000.
    b) Ordinary share capital of Rs 10,00,000 or 13% preference share capital of Rs 5,00.000 an ordinary share capital of Rs 5,00,000. Assume that the corporate tax rate is 50 per cent and the price of the ordinary share is Rs 10 in each case.
24. The following data regarding the two companies 'X' and 'Y' belonging to the same risk class:

	Company 'X'	Company 'Y'
Number of ordinary shares	75,000	1,25,000
5% debentures	40,000	–
Market price per shares	Rs. 1.25	Rs. 1.00
Profit before interest	Rs. 25,000	Rs. 25,000

All profits after paying debenture interest are distributed as dividends. You are required to explain how under Modigliani and Miller approach, an investor holding 10% of shares in company 'X' will be better off in switching his holding to company 'Y'

25. ABC Ltd., needs Rs. 30,00,000 for the installation of a new factory. The new factory expects to yield annual earnings before interest and tax (EBIT) of Rs.5,00,000. In choosing a financial plan, ABC Ltd., has an objective of maximizing earnings per share (EPS). The company proposes to issuing ordinary shares and raising debit of Rs. 3,00,000 and Rs. 10,00,000 of Rs. 15,00,000. The current market price per share is Rs. 250 and is expected to drop to Rs. 200 if the funds are borrowed in excess of Rs. 12,00,000. Funds can be raised at the following rates.

–up to Rs. 3,00,000 at 8%

–over Rs. 3,00,000 to Rs. 15,000,00 at 10%

–over Rs. 15,00,000 at 15%

Assuming a tax rate of 50% . Advise the company

(10 x 3 = 30)