Reg. No .... Name **21P1037**

M. COM DEGREE END SEMESTER EXAMINATION - OCTOBER 2021

SEMESTER 1 : COMMERCE

COURSE : **21P1COMT03: FINANCIAL MANAGEMENT PRINCIPLES**

(For Regular - 2021 Admission)

Duration : Three Hours | Max. Weights: 30

PART A

Answer any 8 questions **Weight: 1**

1. What is perpetual Debt? (R, CO 3)
2. 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. (An, CO 3)
3. What do you meant by Traditional theory? (U, CO 1)
4. What is MM theory of capital structure? (U)
5. What is stable dividend policy? (R, CO 1)
6. What is CFAT? (U, CO 1)
7. What do you meant by Cutt-off rate? (U, CO 1)
8. What do you mean by inventory? (R, CO 1)
9. What do you mean by cash cycle? (U, CO 3)
10. What is meant by Net Operating Cycle? (A, CO 1)

(1 x 8 = 8)

PART B

Answer any 6 questions **Weights: 2**

11. The capital structure of ABC Ltd is equity 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% (An, CO 3, CO 6)
12. 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? (A, CO 3)

13. The data of two firms Rama and Krishna, having the same PV ratio, is given below. Make relevant computations and comment on their operating risks. (E, CO 3)

Particulars	Rama	Krishna
Sales	2,00,000	2,00,000
Variable cost	1,20,000	1,20,000
Fixed cost	30,000	50,000

14. Discuss the importance of dividend policy. (An, CO 1)

15. Z Ltd has an investment opportunity costing Rs. 40,000 crores with the following expected cash inflow (i.e. after tax and before depreciation) (An, CO 3)

Year	Inflows (Rs. crores)	PVF (10%)
1	7,000	0.909
2	7,000	0.826
3	7,000	0.751
4	7,000	0.683
5	7,000	0.621
6	8,000	0.564
7	10,000	0.513
8	15,000	0.467
9	10,000	0.424
10	4,000	0.386

Using 10% as the cost of capital. Determine (1) Net Present Value
(2) Profitability Index

16. What are the basic financial factors used in Project evaluation? (U, CO 1)

17. "Inadequate working capital is disastrous,whereas redundant working capital is a criminal waste".Do you agree?Explain. (E, CO 1)

18. Bharat Ltd propose to liberalize its credit facilities and also to increase its sales. The liberalized credit policy will bring additional sales of Rs 2,00,000.The variable cost will be 60% of sales and there will be 10% risk for non-payment and 5% collection costs. Will the company benefit from the new credit policy or not? (A)

(2 x 6 = 12)

PART C

Answer any 2 questions **Weights: 5**

19. JK Ltd has the following book-value capital structure as on 31st March 2015 (E, CO 6)

Equity share capital (2,00,000 shares)	Rs. 40,00,000
11.5% Preference shares	Rs. 10,00,000
10% Debentures	Rs. 30,00,000
Total	**Rs. 80,00,000**

The equity shares of the company sell for Rs. 20. It is expected that the company will pay a dividend of Rs. 2 per share next year, this dividend is expected to grow at 5% p.a. forever. Assume 35% corporate tax rate.

1. Compute the Company's WACC based on the existing capital structure.
2. Compute the new WACC if the company raises an additional Rs. 20 Lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs. 2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs. 16 per share.
3. Comment on the use of weights in the computation of WACC.

20. The following is the data regarding two companies 'A" and 'B" belonging to the same equivalent risk class: (A, CO 4, CO 6)

	Company A	Company B
Number of ordinary shares	1,00,000	1,50,000
8% Debentures	50,000	-
Market Price per share	Rs. 1.30	Rs. 1.00
Profit before interest	Rs. 20,000	Rs. 20,000

All profits after paying debenture interest are distributed as dividends.
You are required to explain how under M & M approach, an investor holding 10% of shares in company 'A" will be better off in switching his holdings to Company 'B'

21. "For most investment decisions that a firm faces, net present value is either a superior decision criterion, or is at least as good as the competing techniques". In what investment situations is the profitability index better than the net present value? (E, CO 3)

22. Oasis Ltd. produces 1,56,000 units per annum.The company gives the following details. (A, CO 3, CO 6)

Cost per unit	(Rs)
Raw Materials	90
Direct Labour	40
Overhead	75
Total Cost	205
Profit	60
Selling Price	265

Additional information:
(1) Raw materials are in stock on an average for one month and materials are in process on an average for 2 weeks.Finished goods are in stock for one month.
(2) Credit allowed by suppliers-one month and delay in payment from debtors-2 months.
(3) Lag in payment of wages 2 weeks and in payment of overhead one month.
(4) Cash in hand and at bank is expected to be Rs 60000.
All sales are on credit and production is carried on evenly throughout the year. Wages and overhead,accrue evenly. For calculations, 4 weeks is equivalent to a month. Estimate working capital requirement.

(5 x 2 = 10)

OBE: Questions to Course Outcome Mapping

CO	Course Outcome Description	CL	Questions	Total Wt.
CO 1	Familiarise the various concepts and approaches in financial management	R	3, 5, 6, 7, 8, 10, 14, 16, 17	12
CO 3	Equip them with advanced analytical tools and techniques that are used for making sound financial decisions	An	1, 2, 9, 11, 12, 13, 15, 21, 22	21
CO 4	Enable students to compare and contrast the implications of financial decisions	E	20	5
CO 6	Enables comparison of the risk-return analysis and liquidity-profitability analysis of different alternatives in financial management	E	11, 19, 20, 22	17

Cognitive Level (CL): Cr - CREATE; E - EVALUATE; An - ANALYZE; A - APPLY; U - UNDERSTAND; R - REMEMBER;