Reg. No .... Name **22P1038**

M. COM DEGREE END SEMESTER EXAMINATION : OCTOBER 2022

SEMESTER 1 : COMMERCE

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

(For Regular - 2022 Admission and Supplementary - 2021 Admission)

Duration : Three Hours Max. Weights: 30

PART A

Answer any 8 questions **Weight: 1**

1.	What do you mean by floating rate of debt?	(R, CO 3)
2.	What do you meant by Cost of zero coupon Bonds?	(R, CO 3)
3.	What is trading on equity?	(U, CO 1)
4.	What do you meant by Operating profit?	(U, CO 1)
5.	Define dividend policy.	(R, CO 1)
6.	A project cost ₹ 6,00,000 and yields annually a profit of ₹ 90,000 after depreciation of 12.5 % p.a but before tax at 50%. Compute the payback period.	(An, CO 3)
7.	What do you mean by profitability index?	(U, CO 3)
8.	Differentiate between CDs and CPs.	(U, CO 3)
9.	What is a Cash Budget?	(U, CO 3)
10.	What do you mean by T- Bill?	(R, CO 3)

(1 x 8 = 8)

PART B

Answer any 6 questions **Weights: 2**

11. "Profit maximisation approach is not operationally feasible". Discuss. (E, CO 1)

12. Southern enterprises is in all equity firm and furnishes the following information. (A, CO 3)
    Expected EBIT - Rs. 10 Lakhs.
    Interest rate in the market - 6%
    Equity capitalisation rate (No debt is used) - 10%
    Assuming perfect capital market conditions and the firm raises a debt of Rs. 75 Lakhs, find out:
    a. Value of the firm b. Value of equity c. Leveraged cost of equity

13. What are the general assumptions in capital structure theories? (An, CO 3)

14. Distinguish between share dividend and cash dividend. (E, CO 1)

15. A project will cost Rs. 4,00,000. Its expected life would be 5 years. The company expects earnings before depreciation and tax as follows:

Year	Amount (in Rs.)
1	1,00,000
2	1,00,000
3	1,50,000
4	2,00,000
5	2,00,000

(An, CO 3)

Assuming corporate tax rate of 30% and depreciation on straight line method, compute ARR based on average profit and average investment of the project. If the weighted average cost of capital of the firm is 20%, can the project be accepted?

16. ABC Ltd is proposing to purchase a new machine which will carry out the operations performed by labour. Two models of the machine are available in the market. From the following information, prepare a statement showing the comparative profitability of the two models and find out payback period of both the machines.

	Machine A	Machine B
Estimated life of machine (years)	10	12
Cost of machine	5,00,000	6,00,000
Cost of indirect materials p.a.	12,000	16,000
Estimated savings in scrap	20,000	30,000
Additional cost of maintenance p.a.	14,000	22,000
Additional cost supervision p.a	24,000	32,000
Estimated savings in direct wages: Employees not required (number) Wages per employee p.a.	 150 1,200	 200 1,200

(E, CO 3)

Assume tax rate of 30% of profit (ignoring depreciation for calculation of tax) Which model would you recommend?

17. The management of Royal industries has called for a statement showing the working capital needs to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above-mentioned activity level is detailed below:

Raw materials	20
Direct labour	5
Overheads (including depreciation of Rs.5 per unit)	15
	40
Profit	10
Selling price	50

(An, CO 3, CO 6)

Additional information:

a) Minimum desired cash balance is Rs. 20,000
b) Raw materials are held in stock, on an average for 2 months
c) Work-in-progress (assume 50% completion stage) will approximate to half month's production

d) Finished goods remain in warehouse, on an average, for a month

e) Suppliers of materials extend a month's credit and debtors are provided two month's credit; cash sales are 25% of total sales

f) There is a time lag in payment of wages of a month and half a month in case of overheads.

Prepare a statement showing working capital needs.

18. From the following information, calculate (i) Debtors turnover ratio and (ii) Average collection period. (A, CO 2, CO 6)

Sales Rs 3,30,000
Cash sales Rs 1,20,000
Returns inwards Rs 30,000
Opening debtors Rs 70,000
Closing debtors Rs 50,000
Provision for bad debts Rs 5,000

(2 x 6 = 12)

PART C

Answer any 2 questions **Weights: 5**

19. How will you compute the specific and composite costs of capital?-Explain with examples (E, CO 3)

20. Summer and Winter Ltd are identical in all respects including risk factors except for debt/equity mix. Summer Ltd having issued 12% debentures of Rs. 30 Lakhs, while winter Ltd issued only equity capital. Both the companies earn 24% before interest and taxes on their total assets of Rs. 50 Lakhs. Assuming the corporate effective tax rate of 40% and capitalisation rate of 18% for an all equity company. Compute value of Summer Ltd and Winter Ltd using (A, CO 3)

1. Net Income approach 2. Net Operating Income approach

21. A company has to make a choice between 2 projects namely A and B. The inital capital outlay of two projects are ₹ 1,35,000 and ₹ 2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual incomes are as under:- (A, CO 3)

Year	Project A (₹)	Project B (₹)	Discounting factor at 16%
1	-	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

Calculate the following, for each project -

(1) Discounted Payback period
(2) Profitability Index
(3) Net Present Value

22. Devi Ltd, a manufacturing company gives the following details for the year 2016-17.

Issued share capital	Rs 10,00,000
10% debentures	Rs 5,00,000
Fixed Assets (1.1.2016)	Rs 25,00,000

Production during the year 2015-16 was 2,00,000 units and it is expected to continue the same. The expected ratio of cost to selling price are:
Raw materials 40%, direct wages 20%, overhead 10%
Past experiences reveal the following facts.

a. Raw materials are expected to remain in stores on an average two months.
b. Each unit of production is expected to be in process for one month
c. Finished goods will stay in the warehouse for three months before sales.
d. Suppliers allow two months credit period after delivery of raw materials.
e. The company allows three month credit period to its customers.

(An, CO 3, CO 6)

Estimate the working capital requirements of the company for the year 2016-17, assuming that sale price per unit is Rs 10. The company wants to keep emergency fund of Rs 1,00,000.

(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, 4, 5, 11, 14	7
CO 2	Understand various issues involved in financial management of a firm	A	18	2
CO 3	Equip them with advanced analytical tools and techniques that are used for making sound financial decisions	An	1, 2, 6, 7, 8, 9, 10, 12, 13, 15, 16, 17, 19, 20, 21, 22	37
CO 6	Enables comparison of the risk-return analysis and liquidity-profitability analysis of different alternatives in financial management	E	17, 18, 22	9

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