Reg. No .... Name **22P1038-S**

M. COM DEGREE END SEMESTER EXAMINATION - OCTOBER 2022

SEMESTER 1 : COMMERCE

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

(For Supplementary - 2020/2019/2018/2017 / 2016 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. Compare and contrast Discounting and Compounding
2. What is Debt?
3. What is average cost of capital?
4. What do you meant by Dividend ?
5. State the difference between Debenture and Bond.
6. Compare and contrast Explicit cost and implicit cost.
7. What is systematic risk?
8. What is financial structure?
9. What do you meant by Traditional theory?
10. What is meant by Optimum capital structure?
11. What is investment decision?
12. What is Contribution?

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. "Profit maximisation approach is not operationally feasible". Discuss.
14. State the difference between Gross working capital and Net working capital
15. State the importance of financial planning
16. What is financial risk? How does it arise?
17. The equity capitalisation rate of TR Ltd is 18%. The company needs further capital of ₹ 5,00,000. It has been estimated that the equity capitalisation rate would be:
    (a) 16%, if the company issues debentures of ₹ 1,00,000
    (b) 16.5%, if the company issues debentures of ₹ 3,00,000
    (c) 17%, if the company issues debentures of ₹ 5,00,000
    The net operating income of the company, after additional investment of ₹ 5,00,000 would be ₹ 1,50,000. Compute total value of the firm, value of equity and the overall cost of capital.
    The interest on debenture under option:
        (a) will be 10%
        (b) will be 12%
        (c) will be 14%
    Based on the Traditional theory of capital structure, give your suggestions.
18. Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage for the following firms and interpret the results.

Firm	P	Q	R
1. Output	3,00,000	75,000	5,00,000
2. Fixed costs (₹)	3,50,000	7,00,000	75,000
3. Unit variable costs (₹)	1.00	7.50	0.10
4. Interest expenses (₹)	25,000	40,000	-
5. Unit selling price (₹)	3.00	25.00	0.50

19. What are various of Capital investment decisions?

20. A company has a sale of ₹ 2,00,000. The variable costs are 40% of the sales, while the fixed costs amounted to ₹ 60,000.
The amount of interest on long term debt is ₹ 20,000.
Calculate the combined leverage and illustrate its impact if sales increases by 5%

(5 x 5 = 25)

PART C
Answer any 3 (10 marks each)

21. What is financial management? State its importance.

22. The following is the data regarding two companies 'A" and 'B" belonging to the same equivalent risk class:

	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'

23. 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:-

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

24. Explain the techniques of evaluating a project's financial viability

25. What are the determinants of Capital Structure of a Company?

(10 x 3 = 30)