Reg. No .... Name **23P137**

M. COM DEGREE END SEMESTER EXAMINATION : NOVEMBER 2023

SEMESTER 1 : COMMERCE

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

(For Regular 2023 Admission and Improvement / Supplementary 2022/ 2021 Admission)

Duration : Three Hours Max. Weights: 30

PART A

Answer any 8 questions **Weight: 1**

1. What do you mean by Marginal cost of Capital? (R, CO 3)
2. What do you meant by Traditional theory? (U, CO 1)
3. What is a growth firm? (U, CO 3)
4. What do you mean by Payback reciprocal? (U, CO 3)
5. What do you mean by Annuity? (R, CO 3)
6. Give examples for Permanent Working Capital and Variable Working Capital. (U, CO 1)
7. How will you compute financial leverage? (U, CO 3)
8. What do you mean by CEM? (U, CO 1)
9. What is NPV? (U, CO 3)
10. Which are the assumptions of MM irrelevance theory? (U, CO 3)

(1 x 8 = 8)

PART B

Answer any 6 questions **Weights: 2**

11. The M.Com Ltd.'s available information is:-

K_e = 15 %, E = Rs. 30, r = (i) 14 %, (ii) 15 %, (iii) 16 %

You are required to calculate market price of a share of the M.Com Ltd. as per Gordon's Model if: (A, CO 3)

i.) b = 40 % (ii) b = 60 % (iii) b = 80 %.

12. Discuss the importance of dividend policy. (An, CO 1)
13. An investment of Rs. 1,36,000 yield the following cash inflows. Determine the IRR. (An, CO 3)

Year	1	2	3	4	5
CFAT	30,000	40,000	60,000	30,000	20,000

14. Discuss the relationship between the cost of equity and financial leverage in accordance with MM Proposition II. (An, CO 4, CO 6)
15. X Ltd took a bank loan of ₹ 20,00,000 at the rate of 12% interest. The amount is repayable after 3 years. Compute the total amount repayable, if the interest is compounded: (A, CO 3)

1. Annually 2. Half yearly 3. Quarterly

16. X Ltd gives the following information relating to two alternative investment plans. (An, CO 3)

Plan 1

Expected capital investment Rs. 20 Lakhs

Expected after tax annual cash inflow Rs. 5 Lakhs
Expected life of the project 10 years

Plan 2

Expected Capital investment Rs. 12 Lakhs
Expected after tax annual cash inflow Rs. 2 Lakhs
Expected life of the project 10 years.

Compute: -

(a) Payback period
(b) Post Payback profitability
(c) Post Payback profitability index.

17. Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage for the following firms and interpret the results. (A, CO 3)

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

18. What is Average Rate of Return? How is it calculated? (A, CO 1)

(2 x 6 = 12)

PART C

Answer any 2 questions **Weights: 5**

19. A company earns a profit of Rs.3,00,000 per annum after meeting its interest liability of Rs.1,20,000 on 12% debentures. The tax rate is 50%. The number of equity shares of 10 each are 80,000 and the retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs.4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par. (E, CO 6)
Required-
(i) Compute EPS - (a) if the additional fund were raised as debt, (b) If additional fund were raised by the issue of equity shares
(ii) Advice the company as to which source of finance is preferable.

20. Soumya enterprises require 1,80,000 units of certain items annually. The cost per unit is Rs 3.The cost per purchase order is Rs 300 and the inventory carrying cost is Rs 12 per unit per year. (A, CO 2, CO 6)

(a) What is EOQ?
(B) What the firm should do, if the suppliers offer discount as detailed below.

Order quantity	Discount
4500-5999	2%
6000 or above	3%

21. "Investment, Financing and Dividend decisions are all interrelated". Comment (E, CO 1)

22. Prepare the cash budget for April to October from the information supplied by Shah agency trading concern. (A, CO 3)

a. Balance sheet as at 31st March.
b. Estimated sales and expenditure on salaries.

Liabilities	Rs.	Assets		Rs.
Proprietor's Capital	1,00,000	Cash		20,500
Outstanding Liabilities	17,000	Stock in trade		50,500
		Sundry debtors		26,000
		Furniture	25,000	
		less: depreciation	5,000	20,000
	1,17,000			1,17,000

Months	Sales	Salaries
April	30,000	3,000
May	52,000	3,500
June	50,000	35,000
July	75,000	4,000
August	90,000	4,000
September	35,000	3,000
October	25,000	3,000
November	25,000	3,000

c. The other monthly expenses are: rent Rs. 1,000, depreciation Rs.. 1,000, misc. expenses Rs.. 500 and commission 1% of sales.
d. Of the sales, 80% is no credit and 20% for cash.
e. 70% of the credit sales are collected in 1 month and the balance in 2 months. There are no bad debt losses.
f. Gross margin on sales on an average of 30%.
g. Purchases equal to next month's sales are made every month and they are paid during the month in which they are made.
h. The film maintains a minimum cash balance of Rs. 10,000.
i. Cash deficiencies are made up by bank loan which are repaid at the earliest available opportunity and cash in excess of Rs. 15,000 is invested in securities(interest on bank loan and securities is to be ignored)
j. Outstanding liabilities remain unchanged.
k. Credit sales in February and March were equal.

(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	2, 6, 8, 12, 18, 21	12
CO 2	Understand various issues involved in financial management of a firm	A	20	5
CO 3	Equip them with advanced analytical tools and techniques that are used for making sound financial decisions	An	1, 3, 4, 5, 7, 9, 10, 11, 13, 15, 16, 17, 22	22

CO 4	Enable students to compare and contrast the implications of financial decisions	E	14	2
CO 6	Enables comparison of the risk-return analysis and liquidity-profitability analysis of different alternatives in financial management	E	14, 19, 20	12

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