Reg. No .... Name **25P137**

M. COM DEGREE END SEMESTER EXAMINATION- NOVEMBER 2025

SEMESTER 1 : COMMERCE

COURSE : **24P1COMT03 :FINANCIAL MANAGEMENT PRINCIPLES**

(For Regular - 2025 Admission and Improvement /Supplementary 2024 Admission)

Time : Three Hours Max. Weights: 30

PART A

Answer any 8 questions **Weight: 1**

1. What is NPV? (U)
2. What is financial Decision? (R)
3. What is real cost of debt? (R)
4. What do you meant by Arbitrage under MM thoery? (U)
5. What is the impact of errors that may occur in the credit evaluation process? (An)
6. What is financial break even point? (U)
7. What do you mean by profitability index? (U)
8. Which are the factors influencing internal financing? (R)
9. What is the theme of MM Hypothesis? (U)
10. Write a short note on codification of inventories. (U)

(1 x 8 = 8)

PART B

Answer any 6 questions **Weights: 2**

11. X Ltd gives the following information relating to two alternative investment plans. (An)

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.

12. The M.Com Ltd.'s available information is:- (A)

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:

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

13. (a) ABC Ltd has issued Debentures of Rs. 50 Lakhs to be repaid after 7 years. How much should the company invest in a sinking fund earning 12% in order to be able to repay debentures? (A)

(b) XYZ Ltd is creating a sinking fund to redeem its Preference shares of Rs. 10 Lakhs issued on April 6, 2007 and maturing on April 5, 2018. The first annual payment to the fund will be made on April 6, 2007. The company will make equal annual payments and expects that the fund will earn 12% per year. How much will be the amount of Sinking Fund payment?

14. Discuss the scope of financial Management. (R)

15. Which concept is known as the Manager's Concept of working capital? Why? Give reasons. (An)

16. Firm X and Y are identical in every respect except that X is unleveraged. Company Y has ₹ 2,00,000 of 8% debentures outstanding.
Assume
1. that all MM assumptions are met;
2. that the tax rate is 50%;
3. that EBIT is ₹ 6,00,000 and that equity capitalisation rate for company X is 10%. (A)
a. What would be the value for each firm according to MM approach?
b. Suppose that value of unleveraged firm V_u = ₹ 25,00,000 and value leveraged firm V_L = Rs. 35,00,000
According to MM, do they represent equilibrium values? If not explain the process by which the equilibrium will be restored.

17. YKP Ltd. has 15,000 equity shares outstanding as on date. Currently the share of the company is being traded at a price of Rs. 120 per share. It is expected that the firm would pay dividend of Rs. 5 per share in the next year. The firm has project in hand requiring new investment of Rs. 5,00,000. The shareholders' expected rate of return is 12% and the firm expected to have net profit of Rs. 2,50,000 at the end of the year. (A)
Prove that payment of dividend has no impact on the value of the firm.

18. State the essentials of MM theory of capital structure. (An)

(2 x 6 = 12)

PART C

Answer any 2 questions **Weights: 5**

19. Capital budgeting decisions have long term implications for a concern- Explain (U)

20. Prepare the cash budget for April to October from the information supplied by shah agency trading concern. (A)

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.

21. From the following information, compute WACC of SG Ltd. (Assume Tax = 35%)

- Debt to Total Funds: 2:5
- Preference Capital to Equity Capital: 1:1
- Preference Dividend Rate 15% (An)
- Interest on Debenture: ₹ 20,000 for half year
- EBIT at 30% of Capital employed: ₹ 3,00,000
- Cost of Equity Capital is 24%

22. ABC Ltd uses inventory turnover ratio as one measure to evaluate the performance of the production manager. Currently its inventory turnover ratio is 10 times per annum. (industrial average is 4 times). Average sales are Rs. 4,50,000 per annum. Fixed cost Rs. 10,000 and percentage of variable cost is 70% of sales, carrying cost of inventory is 5% per annum. Sales force complained that low inventory levels are resulting in loss of sales due to stock outs. Sales manager estimates as under. (E)

Inventory policy	Inventory turnover	Sales (Rs)
A	8	5,00,000
B	6	5,40,000
C	4	5,65,000

Based on the above estimates, assuming 50% tax rate and after-tax return of 25% on investment in inventory, which policy would you recommend?

(5 x 2 = 10)

OBE: Questions to Course Outcome Mapping

CO	Course Outcome Description	CL	Questions	Total Wt.

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