

Reg. No

Name

18MP107B**M Phil. DEGREE END SEMESTER EXAMINATION - MARCH 2018****SEMESTER 1 : COMMERCE****COURSE : 15MP1COM3B ; FINANCIAL MANAGEMENT***(For Regular - 2017 admission)*

Time : Three Hours

Max. Marks: 75

Section A**Answer any 11 (5 marks each)**

1. What is meant by time value of money? How do you compute the Present Value of a single cash flow?
2. Critically examine Leveraged Buy Out as a method of merger and amalgamation
3. Explain briefly the factors affecting the investments decisions
4. What is discounted payback period? How far is it an improvement over traditional payback period?
5. A firm has the following capital structure and after-tax costs for the different sources of fund used :

Sources of Fund	Amount Rs	Proportion %	After-tax cost %
Debt	15,00,000	25	5
Preference Shares			
Equity Shares	12,00,000	20	10
Retained Earnings	18,00,000	30	12
	15,00,000	25	11
Total	60,00,000	100	

Compute weighted average cost of capital.

6. C Ltd. uses Discounted Payback Period for projects under Rs25,000 and has a cut off period of 4 years for these small value projects. Two projects, R and S are under consideration. The anticipated cash flows for these two projects are listed below. If C Ltd. uses a 10% discount rate on these projects, are they accepted or rejected?

Initial Cost R- Rs.24000, S - Rs.18000. Cash inflows are estimated as follows:

	Year 1	Year2	Year 3	Year 4	Year 5
Project R (Rs.)	6,000	8,000	10,000	12,000	5,000
Project S (Rs.)	9,000	6,000	6,000	3,000	2,000

7. Explain the meaning of Leverage in financial management. What are its implications?
8. A Ltd. furnished the following information:
Sales 48,00,000, variable cost ratio 60%; fixed cost other than interest Rs. 28,00,000, Interest on Debentures Rs.4,20,000. Tax rate is 50%. You are required to calculate Operating Leverage, Financial Leverage and Combined Leverage.
9. Define Capital Structure. What are the features of an appropriate capital structure?
10. State Walter's model of dividend decision. How is it derived?
11. What do you understand by a stable dividend policy? Why should it be followed?
12. What are the important factors affecting credit policy of a firm?
13. What is meant by risk return trade off in working capital management?
14. What are the basic strategies of efficient cash management?

Section B**Answer any 2 (10 marks each)**

15. Describe the salient features of the modern approaches to Financial Management
16. AB Ltd. is contemplating the following Projects A & B. The cash flows are estimated as below. Calculate the NPV assuming 10% as discount rate and IRR of both the projects and suggest which project is more feasible?

Year	0	1	2	3
Project - A	Rs. 40,000	Rs. 17,000	Rs. 17,000	Rs. 41,000
Project - B	Rs. 48,000	Rs. 22,000	Rs. 22,000	Rs. 23,000

17. What do you mean by capital structure? Discuss in detail theories of capital structure with the help of examples.
18. Calculate the Working Capital requirement for a manufacturing Firm for the Level of activity of 80,000 Units. You may assume that production is carried on evenly throughout the year and Wages & Overhead expenses accrue similarly and a time period of 4 weeks is equivalent to a month.

Description Amount (Rs.)

	(Per Unit)
Raw materials	45
Direct labor	20
Overheads	37.5
Total Cost	102.5
Profit	22.5
Selling price	125

Other Information

- Raw materials in stock: Two weeks
- Materials in Process: One week
- Finished Goods in stock: Two weeks
- Credit allowed by Suppliers: Half Month.
- Credit allowed to Customers: 4 weeks.
- Overhead expenses paid in arrear: Two weeks

Bank at Bank is expected to be Rs. 40,000. Also 80% of the sales are credit sales for the firm.

(10 x 2 = 20)