Reg. No .... Name **18P136**

M. COM DEGREE END SEMESTER EXAMINATION - NOVEMBER 2018

SEMESTER 1 : COMMERCE

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

(For Regular - 2018 Admission & Supplementary - 2016 / 2017 Admissions)

Time : Three Hours Max. Marks: 75

Section A

Answer any 10 (2 marks each)

1. What is financial forecasting?
2. What is Capacity cost?
3. What do you meant by WACC?
4. What is Growth approach?
5. Compare and contrast Specific cost and Composite cost.
6. What is EP ratio?
7. What do you mean by Capitalisation?
8. What is NI theory?
9. What do you meant by Leveraged firm?
10. What is proper capitalisation?
11. What do you meant by Post Payback period?
12. What is combined leverage?

(2 x 10 = 20)

Section B

Answer any 5 (5 marks each)

13. A doctor is planning to buy an X-ray machine for his hospital. He has two options. He can either purchase it by making a cash payment of ₹ 5,00,000 or ₹ 6,15,000 are to be paid in six equal instalments. Which option do you suggest to the doctor assuming the rate of return is 12 percent?
    (a) PVA of Rs. 1 at 12% of discount for six years is 4.111 and
    (b) PV of Rs. 1 at 12% of discount for six years is 0.507
14. "Cost of preference is less than cost of equity". Discuss
15. DP Ltd has a stable income and stable dividend policy. The average annual dividend payout is ₹ 27 per share (face value = ₹ 100). You are required to find out:-
    1. Cost of Equity Capital if Market Price in Year 1 is ₹ 150
    2. Expected Market Price in Year 2 if cost of equity is expected to rise to 20%
    3. Dividend payout in Year 2 if the company were to have an expected market price of ₹ 160 per share, at the existing cost of equity.
16. Explain the major considerations in Capital structure planning.
17. The following data relates to four Four firms:-

Firm	A	B	C	D
EBIT in ₹	2,00,000	3,00,000	5,00,000	6,00,000
Interest in ₹	20,000	60,000	2,00,000	2,40,000
Equity capitalisation rate	12%	16%	15%	18%

Assuming that there are no taxes and rate of debt is 10%, determine the value of each

firm using the Net Income approach. Also determine the overall cost of capital of each firm. What happens if Firm A borrows ₹ 2 Lakhs at 10% to repay equity capital?

18. Z Ltd has an investment opportunity costing Rs. 40,000 crores with the following expected cash inflow (i.e. after tax and before depreciation)

Year	Inflows (Rs. crores)	PVF (10%)
1	7,000	0.909
2	7,000	0.826
3	7,000	0.751
4	7,000	0.683
5	7,000	0.621
6	8,000	0.564
7	10,000	0.513
8	15,000	0.467
9	10,000	0.424
10	4,000	0.386

Using 10% as the cost of capital. Determine (1) Net Present Value
(2) Profitability Index

19. A firm has two alternative plans for raising additional funds of Rs. 10,00,000.
1. Issue of 10,000 debentures of Rs. 100 each bearing 10% interest per annum.
2. Issue of 4,000 debentures of Rs. 100 each bearing 10% interest per annum and balance by the issue of 12% preference shares.
You are required to calculate the Financial break even point for each plan assuming tax rate of 50%

20. From the following data of Company A and Company B: Prepare their income statements

	Company A (Rs.)	Company B (Rs.)
Variable cost	56,000	60% of sales
Fixed cost	20,000	-
Interest expenses	12,000	9,000
Financial leverage	5 : 1	-
Operating leverage	-	4 : 1
Income Tax rate	30%	30%
Sales	-	1,05,000

(5 x 5 = 25)

Section C
Answer any 3 (10 marks each)

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%
- Interest on Debenture: ₹ 20,000 for half year
- EBIT at 30% of Capital employed: ₹ 3,00,000
- Cost of Equity Capital is 24%

22. Using the imaginary figures show how to determine the value of firm under (a) The Net Income (NI) Approach and (b) Net Operating Income (NOI) Approach.

23. Explain the techniques of evaluating a project's finanacial viability.

24. SM Ltd gives the following information regarding two projects. (Rs. in Crores)

Project I		**Project II**	
200	0.2	300	0.3
200	0.3	400	0.2
500	0.2	500	0.2
500	0.2	400	0.2
100	0.1	200	0.1

Based on standard deviation method, you are required to find out the project to be accepted

25. ABC Ltd needs Rs. 10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs. 1,60,000. In choosing a financial plan, ABC Ltd has an objective of maximising earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,00,000 or Rs. 4,00,000 or Rs. 6,00,000. The current market price per share is Rs. 25 and is expected to drop to Rs. 20 if the funds are borrowed in excess of Rs. 5,00,000.

Funds can be borrowed at the rates indicated below:

(a) Upto Rs. 1,00,000 at 8%

(b) Over Rs. 1,00,000 upto Rs. 5,00,000 at 12%

(c) Over Rs. 5,00,000 at 18%

Assume a tax rate of 50%. Determine the EPS for the three financing alternatives and suggest the scheme which would meet the objective of the management.

(10 x 3 = 30)