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S.No. 732

17PCM03/17PCZ03

(For the candidates admitted from 2017-2018 onwards)

M.Com./M.Com. (Computer Application) DEGREE EXAMINATION, NOVEMBER 2017.

First Semester

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 75 marks

PART A — ($5 \times 5 = 25$ marks)

Answer ALL questions.

All questions carry equal marks.

1. (a) Explain the objectives of financial management.

Or

(b) Discuss the relationship between risk and return.

2. (a) Vamana Ltd issued 10,000 9% debentures of ₹ 100 each at a premium of 5%. The maturity period is 5 years and the tax rate is 50%. Compute the cost of debentures of a company if the debentures are redeemable at par.

Or

(b) A project costs ₹ 5,00,000 and yields annually a profit of ₹ 80,000 after depreciation at 12% p.a. but before tax of 50%. Calculate pay back period.

3. (a) A company has sales of ₹ 1,00,000. The variable costs are 40% of the sales, while the fixed operating costs amount to ₹ 30,000. The amount of interest on long term debt is ₹ 10,000. You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%.

Or

(b) Write a short note on 'Net Income Approach'.

4. (a) Determine the market price per share under Gordon's model :

Earning per share ₹ 4; Retention ratio 25%; Capitalisation rate 15% and rate of return 20%.

Or

(b) Compute the market price under the Walter's model :

Earning per share = ₹ 9; Internal rate of return 18%; Cost of capital 12% and payout ratio = 33.33%.

5. (a) Explicate any 10 factors influencing working capital needs.

Or

(b) Calculate :

(i) Reorder level

(ii) Minimum level and

(iii) Maximum level.

Minimum consumption	240 units per day
Normal consumption	300 units per day
Maximum consumption	420 units per day
Reorder quantity	3600 units
Reorder period	10 to 15 days
Normal order period	12 days

PART B — (5 × 10 = 50 marks)

Answer ALL questions.

All questions carry equal marks.

6. (a) Discuss the functions of financial management.

Or

(b) Explicate any five long term sources of finance.

7. (a) The capital structure and after tax cost of difference sources of funds are given below :

Sources	Amount ₹	After tax cost %
Equity share capital	7,20,000	15
Retained earnings	6,00,000	14
Preference share capital	4,80,000	10
Debenture	6,00,000	8

You are required to compute the weighted average cost of capital.

Or

(b) The Gama Ltd is considering the purchase of a new machine. Two alternative machines (X and Y) have been suggested, each having an initial cost of ₹ 4,00,000 and requiring ₹ 20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be as follows :

Year	Cash inflows Machine X (₹)	Cash inflows Machine Y (₹)
1	40,000	1,20,000
2	1,20,000	1,60,000

Year	Cash inflows	
	Machine X (₹)	Machine Y (₹)
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

Find out net present value and state which alternative you consider financially preferable?

Year :	1	2	3	4	5
P.V. factor @ 10% :	0.91	0.83	0.75	0.68	0.62

8. (a) Describe the determinants of capital structure.

Or

(b) Sahara Ltd has an equity capital consisting of 6000 shares of ₹ 100 each. The company plans to raise ₹ 4 lakhs for expansion. The following alternatives are available.

(i) Issue of common stock.

(ii) Issue of common stock for ₹ 2 lakhs and 10% debt for ₹ 2 lakhs.

(iii) Issue of 10% debt.

(iv) Issue of 10% preference shares for ₹ 2 lakhs and 10% debt for ₹ 2 lakhs.

EBIT is ₹ 4,00,000 and the rate of corporate tax is 50%. Determine the earning per share in each plan.

9. (a) Earning per share is ₹ 10; cost of capital is 10% and rate of return is 15%. Determine the market price per share under the Gordon model if retention is (i) 60% (ii) 40% (iii) 10%.

Or

(b) Earning per share is ₹ 40; capitalisation rate is 10% and rate of return is 12%. Determine the market price per share under Walter Model if dividend payout ratio is (i) 0% (ii) 50% and (iii) 100%.

10. (a) Discuss the factors influencing the size of receivables.

Or

(b) Abirami wishes to commence a new trading business and gives the following information:

(i) Total estimated sales ₹ 6 lakhs p.a.

(ii) Fixed expenses are estimated at ₹ 1,000 p.m.

(iii) She expects to fix a sale price for each product which will be 25% in excess of her cost of purchase.

(iv) She expects to turnover her stock 4 times in a year.

(v) The sales and purchases will be evenly spread throughout the year. All sales will be for cash but she expects one month's credit for purchases.

Calculate :

(1) her estimated profit for the year and

(2) her average working capital requirements.
