D 111063 **(Pages : 4)** **Name.......................................**

Reg. No..................................

THIRD SEMESTER M.Com. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, NOVEMBER 2024

(CBCSS)

M.Com.

MCM 3C 11—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Answer should be written in English only.

Part A

Answer any **four** *questions.*
Each question carries 2 *weightage.*

1. What is optimum capital structure ?
2. What are the aims of finance function ?
3. What is optimal dividend policy ?
4. What are the principles of working capital management ?
5. Calculate operating leverage :

    Installed capacity-1000 units

    Operating capacity- 800 units

    Selling price per unit-100

    Variable cost per unit-70

    Fixed cost Rs. 8,000.

6. Calculate EOQ from the following information :

    Annual consumption-10,000 kg ; cost of placing an order-Rs.50

    Cost per Kg.of material- Rs. 2 ; storage cost - 8 % on average inventory.

7. What are the factors determining cost of capital ?

(4 × 2 = 8 weightage)

Turn over

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

8. The following information is available in respect of a Ltd :

   Earnings per share ... Rs. 10

   Cost of capital ... 10 %

   Find out the market price of the share using Gordon's model under different rates of return, r, of 8 %, 10 % and 15 % for pay payout ratios of 40 %.

9. A firm has the following capital structure and after tax costs for the different sources of fund used :

Source of funds	Amount Rs	Proportion %	After tax cost %
Debt	15,00,000	25	5
Preference shares	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained earnings	15,00,000	25	11
Total	60,00,000	100	

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

10. What are the objectives and scope of cash management ?

11. X Ltd. gives the following details. Compute operating, financial and combined leverages. Sales of 40 lakhs ; Variable cost of 25 lakhs ; Fixed cost of 6 lakhs ; 10 % debt of 30 lakhs ; and Equity Capital of 45 lakhs.

12. Write notes on over-capitalization, under-capitalization and fair-capitalization.

13. Explain various techniques of inventory management ?

14. Z Ltd. has a capital structure comprising equity capital only. It has 1,00,000 equity shares of Rs. 10 each. Now the company wants to raise a fund of Rs. 2,50,000 for its various investment purposes after considering the following three alternative methods of financing :

    (i) Issuing 25,000 equity shares of Rs. 10 each.

    (ii) Borrowing a debt of Rs. 2, 50,000 at 10 % interest ; and

    (iii) Issuing 2,500 10 % preference shares of Rs. 100 each.

Show the effect of EPS under various methods of financing if EBIT (after additional investment) are Rs. 3,20,000 and rate of taxation is @ 50 %.

(4 × 3 = 12 weightage)

Part C

Answer any **two** *questions.*
Each question carries 5 *weightage.*

15. ABC Ltd is expecting an annual EBIT of Rs. 2,00,000. The company has Rs. 8,00,000 in 10 % debentures. The cost of equity or capitalization rate is 12.5 %.You are required to calculate the total value of firm according to NI approach. Also compute the overall cost of capital.

16. From the following information extracted from the books of a manufacturing concern, compute operating cycle in days :

Period covered	365 days
Average period of credit allowed by supplier 16 days	
	(Rs. in '000)
Average total debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sale	10,500
Sale for the year	16,000
Value of average stock maintained :	
Raw material	320
Work in progress	350
Finished goods	260

17. "The objective of financial management is wealth maximization and not profit maximization". Comment ?

18. The following is the capital structure of a company :

Source of capital	Book value (Rs.)	Market value (Rs.)
Equity shares @ Rs. 100 each	8,00,000	16,00,000
9 % cumulative preference shares @ Rs. 100 each	2,00,000	2,40,000
11 % debentures	6,00,000	6,60,000
Retained earnings	4,00,000	—

The current market price of the company's equity share is Rs. 200. For the last year the company had paid equity dividend at 25 % and its dividend I likely to grow 5 % every year. The corporate tax is 30 % and shareholders personal income tax rate is 20 %. You are required to calculate.

i) Cost of capital for each source of capital.

ii) Weighted average cost of capital on the basis of book value weight.

iii) Weighted average cost of capital on the basis of market value weight.

(2 × 5 = 10 weightage)