# MCOM–1004

M.Com. DEGREE EXAMINATION, JANUARY 2021.

First Year – Non Semester

Commerce

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

PART A — ($5 \times 8 = 40$ marks)

Answer any FIVE out of Eight questions.

1. "Liquidity and profitability are competing goals for the finance managers" - Comment.

2. Discuss the pay back criterion, of investment decision. What are its strength and weakness?

3. Compare and contrast financial leverage with operating leverage.

4. Explain the Modigliani - Miller hypothesis of dividend irrelevance. Does this hypothesis suffer from deficiencies?

5. Explain the dangers of having excessive working capital in a firm.

6. Prince Ltd has sales of Rs. 12,00,000. The variable cost 50% of sales, while the fixed cost amounts to Rs.3,60,000. The amount of interest on long term debt is Rs.l,20,000. You are required to calculate combined leverage and illustrate its impact if sales increase by 10%.

7. From the following capital structure of a company calculate the overall cost of capital, using (a) Book value Weights (b) Market Value Weights

| Sources | Book value (Rs.) | Market Value (Rs.) |
|---|---|---|
| Equity share capital | 45,000 | 90,000 |
| Retained earnings | 15,000 | Nil |
| Preference share capital | 10,000 | 10,000 |
| Debentures | 30,000 | 30,000 |

The after tax cost different sources of finance is as follows.

Equity share capital - 14%. Retained Earnings - 13%. Preference Shares - 10%. Debentures - 8%.

8. "The analysis of working capital helps in the effectiveness of business management" - Explain briefly.

PART B — ($5 \times 12 = 60$ marks)

Answer any FIVE out of Eight questions.

9. Enumerate the functions of financial management.

10. Briefly explain the computation of different types of cost of capital.

11. Discuss the factors influenced by capital structure decision making process and explain how will be overcome the factors -comment.

12. Details regarding three companies are given below:

| TCS Ltd. | Wipro Ltd. | CTS Ltd. |
|---|---|---|
| r = 18% | r = 20% | r = 8% |
| k = 15% | k = 20% | k = 10% |
| E = Rs.30 | E = Rs.40 | E = Rs.20 |

By using Walter's Model, you are required to

(a) Calculate the value of an equity shares of each of these companies when dividend payout is (i) 30% (ii) 60% and (iii) 100%

(b) Comment on the results drawn

13. The following annual figures related to ABC Ltd.,

| | Rs. |
|---|---|
| Sales (at three month credit) | 90,00,000 |
| Materials consumed (suppliers extend one and half month's credit) | 22,50,000 |

| | |
|---|---|
| Wages paid (one month in arrear) | 18,00,000 |
| Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear) | 2,00,000 |
| Total administrative expenses for the year (cash expenses are paid one month in arrear) | 6,00,000 |
| Sales promotion expenses for the year (paid quarterly in advance) | 12,00,000 |

The company sells its product on gross profit of 25% assuming depreciation as a part of cost of production. It keeps two months stock of finished goods and one month's stock of raw material as inventory. It keeps cash balance of Rs.25,00,000.

Assume a 5% safety margin work out the working capital requirements of company on cash cost basis. Ignore work in progress.

14. Explain briefly the different sources of working capital.

15. Explain the following capital structure theories
    (a) Net Income (NI) Approach
    (b) Net operating income (NOI) Approach
    (c) Traditional approach
    (d) Modigliani and Miller Approach

16. Discuss the various methods used for risk factors in capital budgeting decisions.