

G 18000109



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Reg. No.....

Name.....

**M.Com. DEGREE (C.S.S.) EXAMINATION, FEBRUARY 2018**

**First Semester**

Faculty of Commerce

FM 01 C03—FINANCIAL MANAGEMENT PRINCIPLES

(2012 Admission onwards)

Time : Three Hours

Maximum Weight : 30

**Section A**

*Answer any five questions.*

*Each question carries 1 weight.*

1. What is the degree of combined leverage ? What is its effect on EPS ?
2. What is profitability index ? Which is a superior ranking criterion, profitability index or the net present value ?
3. What is financial distress ? How does it affect the value of firm ?
4. Define cost of capital. Explain its significance in financial decision-making.
5. What are the objectives of financial management ?
6. What is an annuity due ? If you deposit Rs. 1,000 in a saving account at the end of the each year for 4 years to earn 6% p.a., then what is the future value ?
7. What is meant by WACC ? State the formula to calculate the WACC.
8. What is an EBIT-EPS analysis ?

(5 × 1 = 5)

**Section B**

*Answer any five questions.*

*Each question carries 2 weights.*

9. What are the various concepts of cost of capital ? Why should they be distinguished in financial management ?
10. What is capitalisation ? Explain the cost theory and earning theory of capitalisation.
11. An employee borrowed a three year loan of Rs. 10,000 at 9% interest from the employer to buy a motorcycle. What is the annual instalment to be paid if the employer wants three equal end-of-year repayments ?

Turn over





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12. The following particulars relate to Project No. 009 :

	Rs.
Cost of the project	50,000
Operating savings after tax before depreciation	
I year	5,000
II year	20,000
III year	30,000
IV year	30,000
V year	10,000

Calculate discounted pay-back period taking into account interest factor at 10%.

13. Define the capital structure. What are the elements of a capital structure ? What do you mean by an appropriate capital structure ? What are the features of an appropriate capital structure ?
14. How do you calculate the accounting rate of return? What are its limitations ?
15. Explain the concept of operating leverage. How will you measure the degree of operating leverage ?
16. "The goal of profit maximisation does not provide operationally useful criterion". Do you agree ? Give reasons.

(5 × 2 = 10)

### Section C

Answer any **three** questions.

Each question carries 5 weights.

17. A company is earning a net profit of Rs. 50,000 p.a. the shareholders required rate of return is 10%. It is expected that retained earnings, if distributed among the shareholders can be invested by them in securities of similar type carrying a return of 10% p.a. It is further expected that shareholders will have to incur 2% of the net dividend received by them as brokerage cost for making new investment. The shareholders of the company are in 30% tax bracket. You are required to calculate the cost of retained earnings.
18. Two firms, i.e., unleveraged firm U and leveraged firm L- have identical expected NOI of Rs. 10,000. The value of leveraged firm is Rs 1,10,000 - the value of equity shares being Rs. 60,000 and the value of debt is Rs. 50,000, and the value of unleveraged firm is Rs. 1,00,000. Firm L has borrowed at the expected rate of return of 6%. Assume that an investor, Mr. X, holds 10% of shares of leveraged firm L. How does the arbitrage benefit him ?





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19. Explain the assumptions and implications of the NI approach and the NOI approach. Illustrate your answer with hypothetical examples.
20. What are the major types of financial management decisions that a firm makes ? Discuss briefly each one of them.
21. A company has to select one of the following two projects :

	Project A Rs.	Project B Rs.
Cost	11,000	10,000
Cash inflow :		
Year 1	6,000	1,000
Year 2	2,000	1,000
Year 3	1,000	2,000
Year 4	5,000	10,000

Using the Internal Rate of Return Method suggest which project is preferable.

22. "Both overcapitalisation and undercapitalisation are harmful to the financial interest of the company". Discuss this statement.

(3 × 5 = 15)

