D 52481 (Pages : 3) Name.....................................

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

THIRD SEMESTER M.Com. DEGREE EXAMINATION, DECEMBER 2018

(CUCSS—PG)

M.Com.

Elective : Finance

MC 3E (F) 01—FINANCIAL MANAGEMENT

(2015 Syllabus Year)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer **all** *the questions.*
Each question carries 1 *weightage.*

1. Define long term Debt.
2. What are the Convertible Securities ?
3. List out the different types of Cash Management Techniques.
4. Define Marginal Cost Of Capital.
5. What is Combined Leverage ?
6. List out the different types of Dividend Theories.

(6 × 1 = 6 weightage)

Part B

Answer any **six** *of the following.*
Each question carries 3 *weightage.*

7. When can there arise a conflict between shareholder's and manager's goals ? How does wealth maximization goal take care of this conflict ?
8. Explain the concept and needs of Working Capital.
9. Difference between Operating Leverage and Financial Leverage.
10. A Company's collection period pattern is as follows :
    - 10% of sales in the same month.
    - 20% of sales in the second month.
    - 40% of sales in the third month.
    - 30% of sales in the fourth month.

Turn over

The sales of the company for the first three quarters of the year are as follows :

Month	Quarter I	Quarter II	Quarter III
First	15,000	700	22,500
Second	15,000	15,000	15,000
Third	15,000	22,500	7,500
	45,000	45,000	45,000
Working Days	90	90	90

You are required to calculate the average age of receivables and comment upon the results.

11. A firm is considering an expenditure of Rs. 75 lakhs for expanding its operations. The relevant information is as follows:

Number of existing equity shares	=	10 lakhs
Market value of existing share	=	Rs. 100
Net earnings	=	Rs. 100 lakhs

Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs. 92 per share and the costs of new issue will be Rs. 2 per share.

12. XYZ expects a net operating income of Rs. 2,00,000. It has 8,00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization rate (Cost of Equity) according to the net operating income approach.

If the debentures debt is increased to Rs. 10,00,000. What will be the effect on volume of the firm and the equity capitalization rate ?

13. Explain the mechanics and practices of Dividend Payment.

14. X Company Ltd., has 1,00,000 shares outstanding the current market price of the shares Rs. 15 each. The company expects the net profit of Rs. 2,00,000 during the year and it belongs to a rich class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Rs. 2.50 per share for the current year.

What will be the price of the share at the end of the year :

(i) If the dividend is paid ; and

(ii) If the dividend is not paid.

($6 \times 3 = 18$ weightage)

Part C

Answer any **two** *of the following.*
Each question carries 6 *weightage.*

15. From the following information supplied to you, ascertain whether the firm is following an optional dividend policy as per Walter's Model ?

Total Earnings	Rs. 2,00,000
No. of equity shares (of Rs. 100 each 20,000)	
	Rs.
Dividend paid	1,00,000
P/E Ratio	10
Return Investment	15%

The firm is expected to maintain its rate on return on fresh investments. Also find out what should be the E/P ratio at which the dividend policy will have no effect on the value of the share ? Will your decision change if the P/E ratio is 7.25 and interest of 10% ?

16. According to Traditional approach, compute the market value of the firm, value of shares and the average cost of capital from the following information :

Net Operating Income 1,00,000

Total Investment 7,00,000 Equity

Capitalization Rate :

(a) If the firms uses no debt 7%.

(b) If the firm uses Rs. 2,00,000 debentures 8%

(c) If the firm uses Rs. 4,00,000 debentures 9%

Assume that Rs 2,00,000 debentures at 6% rate of interest whereas Rs. 4,00,000 debentures at 6% rate of interest whereas Rs. 4,00,000 debentures at 7% rate of interest.

17. The following is an extract from the financial statements of Ramakrishna Ltd :

Particulars	(Rs. Lakhs)
Operating Profit	90
Less : Interest on Debentures	24
	66
Less : Income Tax (50%)	33
Net Profit	33
Equity share capital (share of Rs. 10)	150
Reserve and Surplus	75
10% Debenture	150
	375

The market price per equity Share is 11 and per debenture Rs. 95.

(i) What is the earning per share ?

(ii) What is the percentage cost of capital to the company for the equity and debentures funds ?

(iii) Cost of debenture funds Book Value = 5% Market Price = 5.26%

(2 × 6 = 12 weightage)