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**First Semester M.Com. Degree Examination, December 2017
(CBCS)**

COMMERCE

HC 1.3 : Financial Management (New)

Time : 3 Hours

Max. Marks : 70

SECTION – A

1. Answer **any ten** of the following sub-questions. **Each** sub-question carries **2 marks**. **(10×2=20)**
- a) State the different sources of finance.
 - b) Why does money has time value ?
 - c) What is meant by capital expenditure ?
 - d) What are levered firm and unlevered firm ?
 - e) Define explicit cost and implicit cost.
 - f) What is optimum capital structure ?
 - g) What is bond dividend ?
 - h) What is the trade off between liquidity and profitability ?
 - i) Mention any two objectives of capital budgeting.
 - j) The market price of a share is Rs. 250 and company plans to pay a dividend of Rs. 10 per share. The growth of the dividends is expected to be at the rate of 12%. Find out the cost of equity capital.
 - k) Mr. X invests Rs. 1,000 in a fixed deposit at 10% interest compounded annually. Calculate the amount to be received after three years.
 - l) What is operating cycle of working capital ?

SECTION – B

Answer **any four** questions. **Each** question carries **5 marks**. **(4×5=20)**

- 2. Discuss the different decisions to be taken by a financial manager.
- 3. Define cost of capital. Explain its importance in decision making.

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4. What is capital structure ? Briefly explain the factors influencing on the capital structure.
5. Explain the major determinants of working capital.
6. Sadhu Ltd. wants to purchase some special machines. Management does not wish to buy them unless their cost can be recovered in three years. The following information is available :
 - a) Cost of machine Rs. 4,50,000
 - b) Sales revenue generated by the new machine is Rs. 6,00,000
 - c) Variable cost is 60% of sales
 - d) Annual fixed costs other than depreciation are Rs. 20,000
 - e) Life of machines is 8 years and tax rate is 50%.

Based on the criterion of three years recovery period, should the special machines be purchased ? Support your answer with a computation of payback period required for the recovery of Rs. 4,50,000. .

7. From the following information, estimate the amount of working capital by operating cycle method considering 360 days in a year.
 - a) Sales 2,000 units @ Rs. 50 each
 - b) Material cost Rs. 300 per unit
 - c) Labour cost Rs. 100 per unit
 - d) Overhead Rs. 50 per unit

Customers are given 60 days credit and 30 days credit is taken from creditors. Raw materials and finished goods are kept in stock for 30 days and 20 days respectively. Production cycle period is 10 days.

SECTION – C

Answer **any three** questions. **Each** question carries **10** marks.

(3×10=30)

8. "Wealth maximization is a better criterion than profit maximization." Do you agree ? Elucidate.



9. "Walter's and Gordon's models are essentially based on the same assumptions. Thus there is no basic difference between the two models." Do you agree or not ? Why ? Discuss.
10. Discuss the sources of long term finance.
11. A company has to select one of the following two projects :

Particulars	Project – A (Rs.)	Project – B (Rs.)
Cost of the project	22,000	20,000
Cash inflow :		
Year 1	12,000	2,000
Year 2	4,000	2,000
Year 3	2,000	4,000
Year 4	10,000	20,000

you are required to calculate the Internal Rate of return of both the projects. Advise the firm on selection of a project if the cost of capital of the firm is 10%.

12. Compute the market value of the firm, value of shares and the average cost of capital from the following information.

Net operating income Rs. 1,00,000

Total investment Rs. 5,00,000

Equity capitalization rate :

- a) If the firm uses no debt 10%
- b) If the firm uses Rs. 2,50,000 debentures 11%
- c) If the firm uses Rs. 4,00,000 Debentures 13%.

Assume that Rs. 2,50,000 debentures can be raised at 6% rate of interest whereas Rs. 4,00,000 debentures can be raised at 7% rate of interest.