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Name.....

Reg. No.....

**THIRD SEMESTER M.Com. DEGREE (REGULAR) EXAMINATION
NOVEMBER 2019**

(CUCSS)

M.Com.

MC 3E (F) 01—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all the questions.

Each question carries 1 weightage.

1. What are ARDs and GRDs ?
2. Define Foreign Currency Convertible Bond.
3. What is Working Capital Management Strategy.
4. What is Preference Capital ?
5. What do you mean by Optimal Capital Structure ?
6. Explain the procedure of Dividend Payment.

(6 × 1 = 6 weightage)

Part B

Answer any six of the following

Each question carries 3 weightage.

7. How should the finance function of an enterprise be organized ? What functions do the financial officers perform ?
8. Explain the goals and nature of Financial Management.
9. Mr. Siva wishes to commence a new trading business and gives the following information :
 - (i). The total estimated sales in a year will be Rs. 20,00,000.
 - (ii) His expenses are estimated fixed Expenses of Rs. 3,000 per month plus variable expenses equal to 10% of his turnover.
 - (iii) He expects to fix a sales price for each product which will be $33 \frac{1}{3}\%$ in excess of his cost of purchase.
 - (iv) He expects to turnover his stock six times in a year.
 - (v) The sales and purchases will be evenly spread throughout the year. All sales will be for cash but he expects one month's credit for purchases.

Turn over

10. Prepare an estimate of working capital requirements :

- (a) Projected annual sales—80,000 units.
- (b) Selling price Rs. 8 per unit.
- (c) Percentage of profit 20%.
- (d) Credit allowed to debtors—10 weeks.
- (e) Credit allowed to suppliers—8 weeks.
- (f) Average stock holding (in terms of sales)—10 weeks.
- (g) Allow 20 % for contingencies.

11. XYZ Ltd. issues 20,000, 8% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued (a) at par, (b) at a premium of 10% and (c) of a debentures of 6%.

12. Explain the computation of specific sources of Cost of Capital.

13. Discuss the various factors affecting the Capital Structure.

14. The following data are available for R Ltd.

- Earnings per share Rs. 8
- Rate of return on investment 16%
- Rate of return to shareholders 12%

If Gordon's basic valuation formula is applied what will be the price per share. when the dividend Pay out ratio is 25%, 50%, 60% and 100%.

(6 × 3 = 18 weightage)

Part C

Answer any **two** of the following.

Each question carries 6 weightage.

15. On 1 April the director of XYZ Ltd. wants to know the amount of working capital required for the fourth coming year. Prepare a working capital and for cost the Balance sheet :

Issued share capital	...	Rs. 3,00,000
6% Debentures (floating charge on assets)	...	Rs. 1,00,000
Fixed assets	...	Rs. 1,50,000
Production during the previous year	...	72,000 units

Same level should continue during the current year

The following is the cost sheet :

Raw materials	...	40 %
Directs	...	15 %
Overheads	...	25 %

Raw materials are to remain in stock for 1 month, within process half a month, finished goods in warehouse for two months.

Credit allowed to debtors 2 months and creditors 1 month.

Selling price Rs.8. Work-in-process may be assumed to be 100%.

Complete in materials, one 50% complete in direct ways and overheads.

16. ABC Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes to declare a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs is 12%.

What will be the MP of the share at the end of the year, if :

- (i) A dividend is not declared.
- (ii) A dividend is declared.

Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investments of Rs. 10,00,000 during the period, how many new shares must be issued ? Use the MM Model.

17. Abinaya Company Ltd. expresses a net operating income of Rs. 2,00,000. It has Rs. 8,00,000 to 7% debentures. The overall capitalization rate is 10%.
- (a) Calculate the value of the firm and the equity capitalization rate (or) cost of equity according to the net operating income approach.
 - (b) If the debenture debt is increased to Rs. 12, 00,000. What will be the effect on the value of the firm, the equity capitalization rate ?

(2 × 6 = 12 weightage)