PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

MCom / MCom (CA) DEGREE EXAMINATION MAY 2018
(First Semester)

Common to Branches – **COMMERCE & COMMERCE WITH COMPUTER APPLICATIONS**

FINANCIAL MANAGEMENT

Time : Three Hours   Maximum : 75 Marks

SECTION -A (30 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** Marks   (5 x 6 = 30)

1 a Explain the nature and scope of Financial Management.

OR

b What are the tools of Financial Statement Analysis?

2 a A company issues 10% debentures at par for a total value of Rs. 10,00,000. The debentures are redeemable after 10 years at a premium of 10%. If the tax rate is 40%, compute the cost of debentures to the company (i) before tax and (ii) after tax.

OR

b From the following information available for four companies, calculate (i) EBIT (ii) Operating leverage (iii) Financial leverage and (iv) Combined leverage :

Particulars	P	Q
Selling price / unit (Rs.)	15	20
Variable cost / unit (Rs.)	10	15
Quantity (Nos.)	20,000	25,000
Fixed cost (Rs.)	30,000	40,000
Interest (Rs.)	15,000	25,000
Tax rate (%)	40	40
No. of equity shares	5,000	9,000

3 a What is Lease Financing? Explain its features, merits and demerits.

OR

b X Ltd is considering the purchase if a new machine which will carry out operations performed by labour. 'A' and 'B are alternative models. From the following information, you are required to prepare a profitability statement and workout the payback period in respect of each machine :

	Machine 'A'	Machine 'B'
Cost of machine (Rs.)	42,000	15,000
Estimated life (years)	6	7
Sales per year (Rs.)	30,000	30,000
Cost per annum : Labour (Rs.)	2,000	10,000
Materials (Rs.)	12,000	12,000
Overheads (Rs.)	4,000	3,000

Taxation is too regarded as 50% of profit (ignore depreciation for calculation of tax). Which model would you recommend? State your answers.

4 a What are the factor influencing the working capital requirements?

OR

b Anand wishes to commence a new trading business and gives the following information :

i) Total estimated sales p.a – Rs. 6,00,000.

ii) His fixed expenses are estimated at Rs. 1,000 per month and variable expenses equal to 5% of his turnover.

iii) His expects to fix a sale price for each product which will be 25% in excess of his cost of purchase.

4 b Cont...

iv) He expects to turnover his stock 4 times in a year.

v) The sales and purchase will be evenly spread throughout the year. All sales will be for cash but the expects one month's credit for purchases.

Calculate : (a) His estimated profit for the year (b) His average working capital requirements.

5 a Explain the MM Model of Dividend irrelevance.

OR

b State the significance of stable dividend policy.

SECTION -B (45 Marks)

Answer any **THREE** questions

ALL questions carry **EQUAL** Marks (3 x 15 = 45)

6 Prepare a Balance sheet with as many details as possible from the following information :

Gross profit ratio	20%
Debtor's turnover	6 times
Fixed assets to net worth	0.80
Reserves to capital	0.50
Current ratio	2.50
Liquid ratio	1.50
Net working capital	Rs. 3,00,000
Stock turnover ratio	6 times

7 A choice is to be made between two competing proposals which require an equal investment of Rs. 50,000 and are expected it generate net cash flows as under :

	Project I (Rs.)	**Project II(Rs.)**
End of year 1	25,000	10,000
2	15,000	12,000
3	10,000	18,000
4	Nil	25,000
5	12,000	8,000
6	6,000	4,000

The cost of capital of the company is 10%. The following are the present value factors @ 10% p.a :

Year :	1	2	3	4	5	6
PV factor @10% p.a :	0.909	0.826	0.751	0.638	0.621	0.564

Which project proposal should be chosen and why? Evaluate the project proposals as under :

(i) Pay-back period and (ii) Discounted cash flow methods.

8 Calculate operating, financial and combined leverages under situations A, B and C from the following particulars :

Installed capacity	1,200 units
Actual production and sales	800 units
Selling price per unit	Rs. 15
Variable cost per unit	Rs. 10

Fixed cost :

Situation A	Rs. 1,000
Situation b	Rs. 2,000
Situation C	Rs. 3,000

Capital structure	Financial plan

9 From the following information, prepare a statement showing the estimated working capital requirements :
Budgeted sales – Rs. 2,60,000 p.a
Analysis of cost and profit of each unit

	Rs.
Raw materials	3
Labour	4
Overheads	2
Profit	1
Selling price per unit	10

It is estimated that

i) Pending use, raw materials are carried in stock for three weeks and finished goods for two weeks.
ii) Factory processing will take 3 weeks.
iii) Suppliers will give five weeks credit and customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

10 The cost of capital and the rate of return on investment of J. K Ltd are 10% and 15% respectively. The company has one million equity shares of Rs. 10 each outstanding and earnings per share is Rs. 5. Calculate the value of the firm in the following situations.
Use Walter's model and comment on the results :
(i) 100% retention (ii) 50% retention (iii) No retention

Z-Z-Z END