TOTAL PAGES: 3
18COP04/18CCP04

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

MCom DEGREE EXAMINATION MAY 2022
(First Semester)

Branch – **COMMERCE/ COMMERCE WITH COMPUTER APPLICATION**

FINANCIAL MANAGEMENT

Time: Three Hours Maximum: 50 Marks

SECTION-A (5 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (5 x 1 = 5)

1. The market value of the firm is the result of -----------------
   (i) Dividend decisions. (ii) Working capital decisions.
   (iii) Capital budgeting decisions. (iv) Trade-off between cost and risk

2. Cost of capital is the ______ rate of return expected by its investors
   (i) Minimum (ii) Maximum
   (iii) Equal (iv) higher

3. Capital Budgeting deals with
   (i) Working capital (ii) Long term investments
   (ii) Short term investment (iv) Cash flows

4. Working capital management is managing ____________.
   (i) Long term assets (ii) Short term assets and liabilities.
   (iii) Long terms liabilities (iv) Only short-term assets.

5. ---------------- is a payment of additional shares to shareholders in lieu of cash.
   (i) Stock Split (ii) Stock Dividend
   (iii) Extra Dividend (iii) Regular Dividend

SECTION-B (15 Marks)
Answer **ALL** Questions
ALL Questions carry **EQUAL** marks (5 X 3=15)

6 (a) Explain the objectives of Financial Management.

[OR]

(b) What are the limitations of ratio analysis?

7 (a) Victory Ltd issued Rs.2, 00,000 9% debentures at a premium of 10%. The floatation costs (issue expenses) were 2%. The tax rate is 40%. Compute the cost of debt before tax and after tax.

[OR]

(b) Calculate operating and financial leverages from the following particulars

Units sold	5,000
Selling price p.u.	Rs.30
Variable cost p.u.	Rs.20
EBIT	Rs.30, 000
10% Public debt	Rs.1, 00,000

8(a) Calculate the Pay-back period for a project which requires a cash outlay of Rs.1,00,000 and generates cash inflows of Rs.25,000, Rs.35,000, Rs.30,000 and Rs.25,000 in the first, second, third and fourth years respectively

[OR]

(b) State the features of venture capital.

Cont...

9 (a) What are the objectives of receivables management?

[OR]

(b) Briefly explain the various types of mergers.

10 (a) The following information relates to Sunlight Ltd

Earnings per share	(EPS)	Rs.10
Return on investments	(r)	12%
Cost of capital	(k)	12%
Payout ratio		40%

Determine the market price per share using Walter's approach.

[OR]

(b) Explain briefly the determinants of dividend policy of corporate enterprise.

SECTION-C (30 Marks)

Answer **ALL** Questions

ALL Questions carry **EQUAL** marks (5 X 6 =30)

11 (a) Outline the scope and functions of financial management.

[OR]

(b) From the following particulars pertaining to assets and liabilities of a company Calculate (1) Current ratio (2) Liquid Ratio (3) Proprietary ratio (4) Debt-Equity ratio (5) Capital Gearing ratio.

Liabilities	Rs.	Assets	Rs.
5,000 Equity shares of Rs.100 each	5,00,000	Land and Building	6,00,000
2,000 Pref.shares of Rs.100 each	2,00,000	Plant and Machinery	5,00,000
4,000 Debentures of Rs.100 each	4,00,000	Stock	2,40,000
Reserves	3,00,000	Debtors	2,00,000
Creditors	1,50,000	Cash and Bank	55,000
Bank Overdraft	50,000	Prepaid Expenses	5,000
	16,00,000		16,00,000

12(a) Anand Ltd. offers for the public subscription equity shares of Rs.10 each at a premium of 10%. The Company pays an underwriting commission of 5 % on the issue. The equity shareholders expect a dividend of 10%

a. Calculate the cost of equity capital
b. Calculate the cost of equity capital, if the market price of the share is Rs.20

[OR]

(b) From the following capital structure of a company, calculate the overall cost of capital.

Source	**Book Value**
Equity share capital (Rs.10 shares)	45,000
Retained Earnings	15,000
Preference Share Capital	10,000
Debentures	30,000

The after-tax cost of different sources of finance is as follows:

Equity Share Capital:	14%,
Retained Earnings	13%,
Preference Share Capital	10%
Debentures	5%

13(a)Discuss the advantages and limitations of term loan as a source of finance.

[OR]

(b) The Alpha Co.Ltd.is considering the purchase of a new machine. Two alternative machines (A and B) Have been suggested, each having an initial cost of Rs.4, 00,000 and requiring Rs.20, 000 as additional working capital at the end of 1st year. Earning after taxation are expected to be follows:

Year	Cash Inflows	
	Machine-A Rs.	Machine-B Rs.
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable?

Note: The following table gives the present value of Rs 1 due in 'n' number of years:

Year	**1**	**2**	**3**	**4**	**5**
P.V. Factor @ 10%	0.91	0.83	0.75	0.68	0.62

14 (a) Explain the factors which determine the working capital needs of a firm.

[OR]

(b) Anand Wishes to commence a new trading business and gives the following information:

a. Total estimated sales p.a.Rs.6, 00,000
b. His fixed expenses are estimated at Rs.1, 000 per month and variable expenses equal to 5% of his turnover
c. He expects to fix a sale price for each product which will be 25% in excess of his cost of purchase.
d. He expects to turnover his stock 4 times in a year
e. The sale and purchases will be evenly spread throughout the year. All sales will be for cash but he expects one month's credit for purchases.

Calculate (a) His estimated profit for the year
(b) His average working Capital requirements

15 (a) The following information relates to Venus Ltd.

Earnings Per Share	Rs. 30
Productivity of retained earnings (r)	15%
Capitalization rate (k)	15%

What is market price per share according to the Walter model, if retention is
a) 20% b) 40% c) 60%

[OR]

(b) What is dividend? Explain the various forms dividend.

Z-Z-Z END