

M.Com. DEGREE (C.S.S.) EXAMINATION, JANUARY/FEBRUARY 2017**First Semester**

Faculty of Commerce

FM 01 C03—FINANCIAL MANAGEMENT PRINCIPLES

(2012 Admission onwards)

Time : Three Hours

Maximum Weight : 30

Section A*Answer any five questions.**Each question carries 1 weight.*

1. What is financial planning ?
2. Why time value of money exists ? Give reasons.
3. Write short note on 'MARGINAL COST OF CAPITAL'.
4. Name various methods of computing cost of equity capital.
5. Distinguish between 'Financial Structure' and 'Capital Structure'.
6. What is Capital Gearing ?
7. Define Capital Budgeting.
8. What is EBIT-EPS analysis ?

(5 × 1 = 5)

Section B*Answer any five questions.**Each question carries 2 weight.*

9. A machine is available for purchase at a cost of Rs. 80,000. At the end of its life of 5 years the scrap value is Rs. 10,000. The generated profits (before depreciation) over its life is :

Year	1	2	3	4	5
Amount Rs.	20,000	40,000	30,000	15,000	5,000

Turn over

10. A company is considering the following to raise additional capital for the expansion schemes :

Equity (% of capital)	Debt (% of capital)	Cost of Equity %	Cost of Debt % (pre tax)
75	25	16	12
50	50	18	14
25	75	24	18

Tax Rate is 50 %. Find out the best option.

11. How is the 'wealth maximization' objective superior to 'profit maximization' objective ? Explain.
12. Explain 'capital structure', and list the important factors to be considered while planning the capital structure of a company.
13. What is weighted average cost of capital' ? Explain the rationale behind the use of weighted average cost of capital.
14. Explain the various risk analysis technique in Capital budgeting.
15. What is the relevance of cost of capital in capital budgeting and capital structure planning decisions ?
16. Critically evaluate the M. M. theory on Capital structure.

(5 × 2 = 10)

Section C

Answer any three questions.

Each question carries 5 weight.

17. Following is the data of 2 companies "A" and "B", belonging to the equivalent risk class :

	"A"	"B"
No. of ordinary shares.	1,00,000	1,50,000
8 % debentures	50,000	----
Market price of 1 share...	Rs. 1.30	Re. 1.00
Profit before interest.	Rs. 20,000	Rs. 20,000

Profit is distributed as dividend after paying debenture interest. Apply Modigliani and Miller approach and explain how an investor with 10% shares in "A" will be benefited by switching his shares to "B".

18. The following details of 'A' Ltd. For the year ended 31-3-2014 are furnished :

Operating Leverage	3 : 1
Financial Leverage	2 : 1
Interest Charges	Rs. 20 Lac per annum
Corporate Tax Rate	50%
Variable Cost as % of sales	60%

Prepare the income statement of the company.

19. XY Ltd ; wants to replace an old machine with a new one. Details of 2 short listed offers are :

Anticipated after Tax Cash Flow (Rs. Lakhs)

Machine	Cost	1 st Yr.	2 nd Yr.	3 rd Yr.	4 th Yr.	5 th Yr.
A ..	25	--	5	20	14	6
B ..	40	10	14	16	17	8

Company's cost of capital is 16%. Make an appraisal of the offers and prepare an advice to the company by using (a) Net Present Value Method ; and (b) Internal Rate Of Return Method.

Present value of Re.1.

End of Year	16 %	18 %	20 %
1.	0.862	0.847	0.833
2.	0.743	0.718	0.694
3.	0.641	0.609	0.579
4.	0.552	0.516	0.482
5.	0.476	0.437	0.402

20. Which capital budgeting methods consider time value of money ? How is it possible for the capital budgeting methods that do not consider time value of money to lead to wrong capital budgeting decisions ?
21. How do you estimate the financial requirement of an enterprise ? Explain the steps involved in financial planning ?
22. Both overcapitalization and under capitalization are harmful to the financial interest of a company. Discuss this statement.

(3 × 5 = 15)