

M.Com. DEGREE (C.S.S.) EXAMINATION, MARCH 2015**First Semester**

Faculty of Commerce

FM 01 C03—FINANCIAL MANAGEMENT PRINCIPLES

(2012 Admissions)

Time : Three Hours

Maximum Weight : 30

Section A

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

1. Write short notes on 'Marginal cost of capital'.
2. What is meant by time value of money ?
3. Distinguish between 'Financial structure' and 'Capital structure'.
4. What is IRR ?
5. What is the meaning of leverage ?
6. Explain the concept of 'Risk'.
7. Define cost of capital.
8. Discuss the relationship between EBIT and EPS.

(5 × 1 = 5)

Section B

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

9. Liquidity and profitability are competing goals for the finance manager. Comment.
10. Consider the following information for Strong Ltd. :

EBIT	...	Rs. 120 lakhs
PBT	...	Rs. 320 lakhs
Fixed Cost	...	Rs. 700 lakhs

Calculate the percentage of change in earnings per share, if sales increased by 5%.

Turn over

11. A firm's K_e (return available to the shareholders) is 15%, the average tax rate of shareholders is 40% and it is expected that 2% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. Determine the cost of retained earnings.
12. What is Financial Planning? Explain the principles governing a sound financial plan.
13. Distinguish between operating leverage and financial leverage with appropriate illustrations.
14. What is the necessity for having 'Optimum capital structure'?
15. Explain with example the term 'Profitability Index'.
16. Explain as to how the wealth maximisation objective is superior to profit maximisation objective.

(5 × 2 = 10)

Section C

*Answer any three questions.
Each question carries 5 weight.*

17. How would you apply the cost of capital concept when projects with different risks are evaluated?
18. What are the different approaches to the calculation of cost of equity capital?
19. Critically examine 'Net income and Net operating Income approaches' to capital structure.
20. United Industries Ltd., has an investment budget of Rs. 100 lakhs for 2012-13. It has short listed two projects A and B after completing the market and technical appraisals. The management wants to complete the financial appraisal before making the Investment. Further particulars regarding the two projects are given below :

Particulars	A	B
Investment required ...	100 lakhs	90 lakhs
Average annual cash inflow before depreciation ...	28 lakhs	24 lakhs
And tax estimate		

Salvage value — Nil for both projects

Estimate life-10 years for both projects.

The company follows straight line method of charging depreciation. Its tax rate is 50%. You are required to calculate (a) Pay-Back period and (b) I.R.R. of the two projects.

P.V. of an annuity of Re.1 for ten years at different discount rates is given below :

Rate %	...	10	11	12	13	14	15
Annuity value for 10 years ...		6.1446	5.8992	5.6502	5.4262	5.2161	5.0188

21. A firm has sales of Rs. 75,00,000, variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and Equity of Rs. 55,00,000.

- (a) What is the firm's ROI ?
- (b) Does it have favourable financial leverage ?
- (c) If the firm belongs to an industry whose asset turnover is 3' does it have a high or low asset leverage ?
- (d) If the sales drop to Rs. 50,00,000, what will be the new EBIT ?

22. Calculate the level of EBIT at which the EPS indifference point between the following financing alternatives will occur.

Equity share capital of Rs. 6,00,000 and 12% Debentures of Rs. 4,00,000.

Or

Equity share capital of Rs. 4,00,000. Preference share capital of Rs. 2,00,000 and 12% Debentures of Rs. 4,00,000. Preference dividend 14%.

Assume the corporate tax rate is 35% and par value of equity share is Rs. 10 in each case.

(3 × 5 = 15)