

**F 7829**

**(Pages : 3)**

**Reg. No.....**

**Name.....**

**M.Com. DEGREE (C.S.S.) EXAMINATION, FEBRUARY 2014**

**First Semester**

**Faculty of Commerce**

**FMO IC 03—FINANCIAL MANAGEMENT PRINCIPLES**

**(2012 Admission onwards)**

**Time : Three Hours**

**Maximum Weight : 30**

**Section A**

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

1. Explain financial goals.
2. What is trading on equity ?
3. Explain optimum capital structure.
4. What is financial forecasting ? State its merits.
5. Describe cost of retained earnings.
6. Define capital budgeting. State its features.
7. Explain financial leverage.
8. Explain the concept of time value of money.

**(5 × 1 = 5)**

**Section B**

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

9. Define financial planning. State its significance for the success of a company.
10. 'The wealth maximisation objective provides an operationally appropriate decision criteria'.  
Comment.
11. Explain pattern of capital structure.
12. How is cost of debt calculated ?
13. State the causes for under capitalisation.
14. State the functions of a financial manager.

**Turn over**

15. A Company has paid a dividend of Rs. 3 per share for last 20 years and it is expected to continue so in the future. The Company's share was sold for Rs. 33 20 years ago, and its market price is also Rs. 33. What is the cost of the share ?
16. The expected earnings of firms A and B are Rs. 1,20,000 with a standard deviation of Rs. 30,000. Firm A is non-levered. Firm B is levered and has to pay annual interest charges of Rs. 30,000. Which firm is more risky ? Why ?

(5 × 2 = 10)

### Section C

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

17. Describe the theories of capital structure.
18. Explain traditional methods of capital budgeting.
19. Explain the techniques of risk analysis.
20. A Company is considering to distribute additional Rs. 80,000 to its ordinary shareholders. The shareholders are expected to earn 18% on their investment. They are in 30% tax and incur an average brokerage fee of 3% on the reinvestment of dividend received. The firm can earn a return of 12% on the retained earnings. Should the company distribute or retain Rs. 80,000 ?
21. A new Company proposes to invest Rs. 10,00,000 in Assets and will maintain its capital structure at book value. It is expected to earn a net operating income of Rs. 1,60,000. The Company wants to have an optimum mix of debt and equity. The cost of debt and the equity capitalisation rate at different debt equity ratio are as follows :

<i>Debt-Equity Ratio</i>	<i>Cost of Debt</i>	<i>Equity capitalisation Rate</i>
—	...	—
10 : 90	...	0.125
20 : 80	...	0.130
30 : 70	...	0.136
40 : 60	...	0.143
50 : 50	...	0.160
60 : 40	...	0.180
	...	0.200

- (a) What is the optimum capital structure for this company ?
- (b) If the M-M. hypothesis is valid, what should be the equity capitalisation rate at different debt equity ratios ?



22. Consider the following projects :

<i>Cash Flows (Rs.)</i>					
Project	$C_0$	$C_1$	$C_2$	$C_3$	$C_4$
A	... -1000	+600	+200	+200	+1000
B	... -1000	+200	+200	+600	+1000
C	... -300	+100	+100	+100	+600
D	... -300	0	0	+300	+600

- Calculate the payback period for each project.
- If the standard payback period is 2 years, which project will you select ? Will your answer be different, if the standard payback is 3 years ?
- If the cost of capital is 10%, compute the discounted payback for each project. Which Project will you recommend, if the standard payback is (i) 2 years and (ii) 3 years ?

$$(3 \times 5 = 15)$$