G 2087 (Pages : 3) Reg. No.....

Name.....

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

irm's Ke {return available to the shareholders} is 15%, the average tax rate of shareholders is % and it is expected that 2% is brokerage cost that shareholders will have to pay while investing ir dividends in alternatives securities. Determine the cost of retained earnings.

at is Financial Planning ? Explain the principles governing a sound financial plan.

tinguish between operating leverage and financial leverage with appropriate illustrations.

at is the necessity for having 'Optimum capital structure' ?

plain with example the term 'Profitability Index'.

plain 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.*

w would you apply the cost of capital concept when projects with different risks are evaluated?

at are the different approaches to the calculation of cost of equity capital ?

tically examine 'Net income and Net operating Income approaches' to capital structure.

ited Industries Ltd., has an investment budget of Rs. 100 lacks for 2012-13. It has short listed projects A and B after completing the market and technical appraisals. The management nts to complete the financial appraisal before making the Investment. Further particulars arding 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			

vage value —Nil for both projects Estimate life-10 years for both projects.

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

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

ate %	...	10	11	12	13	14	15
nnuity 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)