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M.Com./M.Com. with Computer Applications (CBCS)  
DEGREE EXAMINATION, APRIL 2019.

Second Semester

Commerce — Core

**FINANCIAL MANAGEMENT**

(For those who joined in July 2016 and afterwards)

Time : Three hours

Maximum : 75 marks

**PART A — (10 × 1 = 10 marks)**

Answer ALL questions.

Choose the correct answer :

1. Financial management is refers to \_\_\_\_\_
- (a) branch of finance
  - (b) applied economics
  - (c) branch of investments
  - (d) branch of business.

2. The basic objective of financial management is \_\_\_\_\_.
- (a) maximisation of wealth of the share holders
  - (b) maximisation of profit of a concern
  - (c) strengthen sound financial position of a concern
  - (d) all the above.
3. Which of the following is simplest technique of capital budgeting?
- (a) internal rate of return
  - (b) net present value
  - (c) pay back method
  - (d) average rate of return.
4. \_\_\_\_\_ is the rate which equates the present value of expected future cash flows will the cost of the investment.
- (a) pay back method
  - (b) internal rate of return
  - (c) average rate of return
  - (d) net present value.
5. The cost of capital is the minimum return that will maintain the value of a firm's \_\_\_\_\_.
- (a) equity shares      (b) preference shares
  - (c) subscribed capital      (d) debentures.



6. Which of the following cost inclusive of all cost of capital from all sources?
- (a) composite cost (b) cost of debt  
(c) fixed cost (d) specific cost.
7. Capital structure is the mix of \_\_\_\_\_ which would maximise the value of the equity stock.
- (a) debt and equity securities  
(b) asset and liabilities  
(c) fixed and current liabilities  
(d) income and expenses.
8. Financial leverage indicated disproportionate change in taxable income as a result of change in
- (a) operating income  
(b) non operating income  
(c) market value  
(d) contribution margin.
9. The excess of current assets over current liabilities can be expressed as \_\_\_\_\_.
- (a) net current assets (b) net working capital  
(c) liquid capital (d) both (a) and (b).

10. In the case of MM approach, dividend policy has no effect on the \_\_\_\_\_.
- (a) market value of a company  
(b) share prices of a company  
(c) dividend rate of a company  
(d) cost prices of a company

PART B — (5 × 5 = 25 marks)

Answer ALL questions choosing either (a) or (b).

11. (a) What are the various functions of a finance manager?

Or

- (b) Calculate the maturity amount if Rs. 2,00,000 is invested for 2 years at 12% compounded. (i) annually (ii) semi annually (iii) quarterly (iv) monthly.

12. (a) What is capital budgeting? What are its objectives?

Or

- (b) A project costs Rs. 15,60,000 and yields annually a profit of Rs. 2,70,400 after depreciation of 12% p.a. but before tax at 25%. Calculate pay back period.





13. (a) What is cost of capital? Explain the significance of cost of capital.

Or

- (b) Sakthi Ltd. issued 20,000 8% debenture of Rs. 100 each on 1<sup>st</sup> April 2009. The cost of issue was Rs. 50,000. The company's tax rate is 35%. Determine the cost of debenture (before as well as after tax) if they were issued (i) at par (ii) at a premium of 10%.
14. (a) State the essentials of an appropriate capital structure.

Or

- (b) 'P' Ltd. has a sales of Rs. 12 lakhs. The variable cost is 50% of sales, while the fixed amount for Rs. 3,60,000. The amount of interest on longterm debt is Rs. 1,20,000.
- You are required to calculate the financial leverage, operating leverage and combined leverage.
15. (a) What is meant by working capital? Explain the different sources of working capital.

Or

- (b) The earning per share of 'W' Ltd. are Rs. 12. The rate of capitalisation is 15% and the rate of return an investment is 9%. Compute the market price share using Walter's formula if the dividend payment is 25%.

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**PART C — (5 × 8 = 40 marks)**

Answer ALL questions choosing either (a) or (b).

16. (a) Define the term. Financial management. Explain the objectives of financial management.

Or

- (b) 'R' Ltd. has issued debentures of Rs. 20 lakh to be required after 5 years. How much should the company invest in a sinking fund earning 10% in order to be repay debentures.
17. (a) What are the factors which influence capital expenditure decisions?

Or

- (b) Two projects 'M' and 'N' which are mutually exclusive are being under considerations. Both of them require an investment of Rs. 1,00,000 each. The net cash inflows are estimated as under.

Year	M (Rs.)	N (Rs.)
1	10000	30000
2	40000	50000
3	30000	80000
4	60000	40000
5	90000	60000

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The company targeted rate of return on investment is 12%. You are required to assess the project on the basis of their present value.

Year:	1	2	3	4	5
Present value 12% :	0.893	0.797	0.712	0.636	0.567

18. (a) Explain the factors determining the cost of capital.

Or

- (b) Following information is available with required to the capital structure of Edward Ltd.

	Amount Rs.	After tax cost of capital (%)
Debentures	1200000	5%
Preferences share capital	400000	10%
Equity share capital	800000	15%
Retained earnings	1600000	12%

You are required to calculate weighted average cost of capital.

19. (a) What are the factors to be kept in mind while determining the capital structure of a firm?

Or

- (b) Two firms 'R' and 'S' are identical except, in the method of financing. Firm 'R' has no debt while firm 'S' has Rs. 3,00,000 8% Debentures is financing. Both the firms have a Net operating income (EBIT) of Rs. 1,20,000 and capitalisation rate of 12%. The corporate tax rate is 35%. Calculate the value of the firm using MM approach.

20. (a) What factors would you take into account in planning the working capital requirement of a firm?

Or

- (b) The following data relates to 'Y' Ltd. earnings per share Rs. 14 ; capitalisation rate 15% rate of return 20%  
Determine the market price per share under Gordon's model if returns is (i) 40% (ii) 60% (iii) 20%.

