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Name.....

Reg. No.....

**THIRD SEMESTER M.Com. DEGREE (SUPPLEMENTARY) EXAMINATION
NOVEMBER 2020**

(CUCSS)

M.Com.

MC 3E (F) 01—FINANCIAL MANAGEMENT

(2015 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all the questions.

Each question carries 1 weightage.

1. What is Retained Earning's ?
2. How does a Lockbox work for payments ?
3. Define Opportunity Cost.
4. What is Financial Breakeven ?
5. What is Capital Structure ?
6. Define Dividend Policy.

(6 × 1 = 6 weightage)

Part B

Answer any six of the following.

Each question carries 3 weightage.

7. Discuss the Scope and functions of Financial Management.
8. Explain the classification of Cost
9. Explain various types of Inventory Control Techniques
10. A Beta Ltd., iron steel reserves are being depleted and its costs of recovering a declining quantity of iron steel are rising each year. As a equal to it the company earnings and dividends are declining at a rate of 12% p.a. If the previous year's dividend (DO) was Rs. 40 and the required rate of return is 15%. What would be the current price of the equity share of the company ?

Turn over

11. There are two firms 'A' and 'B' which are exactly identical except that A does not use any debt in its financing, while B has Rs. 2,50,000, 6% Debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and the equity capitalization rate is 10%. Assuming the corporation tax is 50%, calculate the value of the firm.
12. What are the factors affecting Dividend Policy ?
13. The earnings per share of a company are Rs. 80 and the rate of capitalization applicable to the company is 12%. The company, has before it an option of adopting a payment ratio of 25% (or) 50%(or) 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earnings (i) 12% (ii) 8% (iii) 5%.
14. Prepare an estimate of working capital requirements :
- (i) Projected annual sales – 80,000 units.
 - (ii) Selling price Rs. 8 per unit.
 - (iii) Percentage of profit 20%.
 - (iv) Credit allowed to debtors – 10 weeks.
 - (v) Credit allowed to suppliers – 8 weeks.
 - (vi) Average stock holding (in terms of sales) – 10 weeks.
 - (vii) Allow 20% for contingencies.

(6 × 3 = 18 weightage)

Part C

*Answer any two of the following.
Each question carries 6 weightage.*

15. A Performa cost sheet of a company provides the following particulars :

Elements of cost	
Material	35%
Direct Labours	25%
Overheads	20%

Further particulars available are :

- (i) It is proposed to maintain a level of activity of 2, 50,000 units.
- (ii) Selling price is Rs. 10/-per unit
- (iii) Raw materials are to remain in stores for an average period of one month.
- (iv) Finished foods are required to be in stock for an average period of one month.
- (v) Credit allowed to debtors is 3 months.
- (vi) Credit allowed by suppliers is 2 months.

You are required to prepare a statement of working capital requirements, a forecast profit and loss account and balance sheet of the company assuring that

Share Capital	Rs. 12,00,000
10% Debentures	Rs. 3,00,000
Fixed Assets	Rs. 11,00,000

16. A company has on its books the following amounts and specific costs of each type of capital.

Type of Capital	Book Value Rs.	Market Value Rs.	Specific Costs (%)
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
	13,00,000	16,90,000	

Determine the weighted average cost of capital using :

- Book value weights, and
- Market value weights.

How are they different ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

17. Raja Company earns a rate of 12% on its total investment of Rs. 6,00,000 in assets. It has 6,00,000 outstanding common shares at Rs. 10 per share. Discount rate of the firm is 10% and it has a policy of retaining 40% of the earnings. Determine the price of its share using Gordon's Model. What shall happen to the price of the share if the company has payout of 60% (or) 20% ?

(2 × 6 = 12 weightage)