F-30A/2110

M021/NJ

Name of the examination: M.Com.
Nomenclature: Financial Management
Paper code: MC 105(ii)
Maximum marks: 70
Time allowed: 3 hours

Unit I

Note: Attempt any *two* questions. (10x2)

1. "An optimal combination of decisions relating to the investment, financing and dividends will maximise the value of the firm to its shareholders." Examine.
2. What is the significance of profitability index? Under what circumstances is it better than NPV?
3. PQR Ltd. has the following capital structure as on 31st December, 2018:

	Rs.
Equity share capital (5,000 shares of Rs.100 each)	5,00,000
9% Preference shares	2,00,000
10% Debentures	3,00,000

The equity shares of the company are quoted at Rs. 102 and the company is expected to declare a dividend of Rs. 9 per shares for the next year. The company has registered a dividend growth rate of 5% which is expected to be maintained.

   i. Assuming the tax rate applicable to the company is 30%, calculate the weighted average cost of capital (WACC), and
   ii. Assuming that the company can raise additional term loan at 12% for Rs. 5,00,000 to finance its expansion, calculate the revised WACC. The company's expectation is that the business risk associated with the new financing may bring down the market price from Rs. 102 to Rs. 96 per share.

4. X corporation has estimated that for a new product its break-even point is 2,000 units if the item is solved for Rs. 14 per unit, the cost accounting department has currently identified variable cost of Rs. 9 per unit. Calculate the degree of operating leverage for sales volume of 2,500 units and 3,000 units. What do you infer from the degree of operating leverage at sales volumes of 2,500 units and 3,000 units and their difference, if any?

Unit II

Note: Attempt any *two* questions. (10x2)

5. "The primary purpose for which a firm exists is the payment of dividend." Do you agree? Support your answer.
6. Remote Sensor Ltd. is an all equity financed firm with a market value of Rs. 35,00,000 and cost of equity = 20%. The company wants to buyback equity shares worth Rs. 8,00,000 by issuing and raising 10% perpetual debt of the same amount. Rate of tax may be taken as 35%. Applying the MM Model (with tax), how would the capital restructuring affect: i) Market value, ii) Cost of equity and iii) WACC of Remote Sensor Ltd.
7. The following information has been extracted from the records of a company:

Product cost sheet (per unit)	Rs.
Raw material	45
Direct labour	20
Overheads	40
Total	105
Profit	15
Selling price	120

   I. Raw materials are in stock on an average for two months.

Contd——

II. The materials are in process on an average for one month. The degree of completion is 50% in respect of all elements of cost.
III. Finished goods stock on an average is for one month.
IV. Time lag in payment of wages and overheads is 1.5 weeks.
V. Time lag in receipt of proceeds from debtors is 2 months.
VI. Credit allowed by suppliers is one month.
VII. 20% of the output is sold against cash.
VIII. The company expects to keep a cash balance of Rs. 1,00,000.
IX. The company is poised for a manufacture of 1,44,000 units in the next year.

You are required to prepare a statement showing the working capital requirement of the company.

8. What is the need of holding inventory? Why inventory management is important?

Unit III

9. Describe any *ten* of the following: (3x10)
   a) Financial management
   b) Capital budgeting
   c) Risk
   d) Accounting rate of return
   e) Cost of preference shares
   f) Financial leverage
   g) Bonus shares
   h) Net income approach
   i) Walter's model
   j) Merger
   k) Permanent working capital
   l) Motives of holding cash

11021/NJ