

24003

M.Com. DEGREE EXAMINATION, APRIL 2018.

SECOND SEMESTER

Paper III — FINANCIAL MANAGEMENT

Time : 3 hours

Maximum : 75 marks

(No additional sheet will be supplied)

PART A — (5 × 3 = 15 marks)

Answer any FIVE questions.

Each question carries 3 marks.

Each answer should not exceed 1 page.

1. Time value of money.
2. Capital budgeting process.
3. Operating cycle.
4. Kinds of working capital.
5. Financial leverage.
6. Optimal capital structure.
7. Types of mergers.
8. Stock dividend.

PART B — (4 × 15 = 60 marks)

Answer ALL questions.

Each question carries 15 marks.

Each answer should not exceed 6 pages.

9. Explain the meaning, scope and objectives of financial management.

Or

10. A limited company is considering investing in a project requiring a capital outlay of Rs. 2,00,000. Cash Flows after depreciation but before tax is as follows :

Year	Rs.
1.	1,00,000
2.	1,00,000

Year	Rs.
3.	80,000
4.	80,000
5.	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods.

- (a) Pay-back method.
- (b) Rate of return on average investment method.

11. Discuss the various inventory management techniques.

Or

12. A proforma cost sheet of a company provides the following data:

Costs (per unit):	Rs.
Raw materials	52.0
Direct labor	19.5
Overheads	39.0
Total costs (per unit)	110.5
Profit	19.5
Selling price	130.0

The following additional information is available:

Average raw material in stock - One month average materials in process - half a month and finished goods are in stock - one month. Credit allowed by suppliers - one month; credit allowed to debtors - two months. Time lag in payment of wages - one and half weeks, Overheads - one month.

One fourth of sales are on cash basis. Cash balance is expected to be Rs. 1,00,000. You are required to prepare a statement showing the working capital needs to finance a level of activity of 70,000 units of output.

13. Explain the concept of cost of capital and how do you measure the Weighted Average Cost of capital of the firm.

Or

14. A company has sales of Rs. 1 lakh. The variable costs are 40% of the sales, while the fixed operating costs amount to Rs. 30,000. The amount of interest on long - term debt is Rs. 10,000. You are required to calculate the combined leverage.

15. Critically examine the different approaches for valuation of mergers and acquisitions.

Or

16. ABC company earns Rs.5 per share, is capitalized at a rate of 10 per cent and has rate of return on investment of 18 per cent. According to Walter's model, what should be the price per share at 25 per cent dividend payout ratio? Is this the optimum payout ratio According to Walter?

