

24003 OR

M.Com. DEGREE EXAMINATION, MARCH/APRIL 2019.

SECOND SEMESTER

Commerce

Paper III — FINANCIAL MANAGEMENT

Time : Three 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. Payback period.
2. Wealth maximization.
3. Lock-box system.
4. Liquid assets.
5. Overall cost of capital.
6. Financial leverage.
7. Regular dividend.
8. Difference between Takeover and Acquisition.

PART B — (4 × 15 = 60 marks)

Answer ALL questions.

Each question carries 15 marks.

Each answer should not exceed 6 pages.

9. What is Financial Management and discuss the functions of financial management?

Or

10. A project costs Rs. 1,00,000 and will have a salvage value of Rs. 10,000. The cash flows before tax and depreciation expected to be generated by the project are as follows.

| Year | Cash flows Rs. |
|------|----------------|
| 1    | 20,000         |
| 2    | 25,000         |
| 3    | 28,000         |
| 4    | 30,000         |
| 5    | 35,000         |

The project will be depreciated on straight line method and the tax rate is 50%. Compute the accounting rate of return for the project.

11. What is net working capital and how do you estimate the working capital requirements of a firm?

Or

12. A firm's inventory planning period is one year. Its inventory requirement for this period is 800 units and the total details are as follows :

Annual inventory carrying charges = 10% of average rupee value.

Purchasing cost per order = Rs. 2 – 50.

Price of Material per Unit = Rs. 1.

The firm can procure inventories in various lots as follows:

- (a) 800 Units;
- (b) 400 Units;
- (c) 200 Units and
- (d) 80 Units.

Which of these order quantities is the economic order quantity?

13. Explain the concept of Capital structure and state its determinants.

Or

14. The installed capacity of a factory is 600 units. Actual capacity used is 400 units. Selling price per unit is Rs. 10. Variable cost is Rs. 6 per unit. Calculate the operating leverage in each of the following three situations:

- (a) When fixed costs are Rs. 400
- (b) When fixed costs are Rs. 1,000
- (c) When fixed costs are Rs. 1,200

15. Explain different types of mergers and its economic rationale.

Or

16. Discuss M-M's irrelevance dividends model with an illustration.