G 7785 (Pages : 2) Reg. No. 252129

Name Shilba jose

M.Com. DEGREE EXAMINATION, JUNE 2011

First Semester

Faculty of Commerce

Paper III—FINANCIAL MANAGEMENT CONCEPTS

(For First Semester Private candidates only)

Time : Three Hours Maximum : 75 Marks

Section A

Answer **all** *questions.*
Each question carries 2 marks.
Each answer not to exceed **half a page.**

1. Define Financial Management.
2. Write a note on financial forecasting.
3. State the traditional concept of finance function.
4. Explain watered Capital.
5. What do you mean by fair-Capitalisation ?
6. What is operating risk ?
7. What is owner's equity ?
8. Define "Net Income" approach.
9. Point out four determinants of capital structure.
10. Explain low-gearing in capital structure.

(10 × 2 = 20 marks)

Section B

Answer any **five** *questions.*
Each question carries 5 marks.
Each answer not to exceed **one** *page.*

11. Briefly explain the various financial decisions.
12. What are the causes of over-capitalisation ?
13. Distinguish between Operating Leverage and Financial Leverage.
14. Explain the cost theory of capitalisation.
15. Describe the tools of financial forecasting.
16. What is the EBIT-EPS analysis ? Illustrate your answer.
17. X Ltd. is expecting an annual EBIT of Rs. 1,00,000. The company has Rs. 4,00,000 in 10 % debentures. The costs of equity capital or capitalisation rate is 12.5 %. You are required to calculate the total value of the firm. Also state the overall cost of capital.

Turn over

18. If a company has 30 % debt and 70 % equity and earns 15 % on its assets (define taxes), what is the percent return on equity, assuming it pays 10 % for debt capital while tax rate is 50 % ?

(5 × 5 = 25 marks)

Section C

Answer any **one** *question.*
The question carries 10 *marks.*
Answer not to exceed **three** *pages each.*

19. What is meant by Financial Leverage ? Explain the effects of financial leverage on EPS and Financial Risk of a firm.

20. X Ltd. wishes to arrange overdraft facilities with its bankers during April to June 2009 when it will be manufacturing for stock. Prepare a Cash Budget for the above period from the following data, indicating the extent of bank facilities the company will require at the end of each month :

Month	*Sales (Rs.)*	*Purchases (Rs.)*	*Wages (Rs.)*
2009 February ...	1,80,000	1,24,800	12,000
March ...	1,92,000	1,44,000	14,000
April ...	1,08,000	2,43,000	11,000
May ...	1,74,000	2,46,000	10,000
June ...	1,26,000	2,68,000	15,000

Additional information :

(a) 50 % of credit sales are realised in the month following the sales and remaining 50 % in the second month following.

(b) Creditors are paid in the month following the month of purchase.

(c) The delay in the payment of wages is one month.

(d) Cash at bank on 1-4-2009 was Rs. 25,000.

(e) Assume that there are no cash sales.

(1 × 10 = 10 marks)

Section D

Answer any **one** *question.*
The question carries 20 *marks.*
Answer should not exceed **five** *pages.*

21. What is Capital structure ? Explain Net Income Theory and Net Operating Theories of capital structure.

22. Metha Ltd. is expecting an EBIT of Rs. 3,00,000. The company presently raised its entire fund requirements of Rs. 20 lakhs by issue of equity with equity capitalisation rate of 16 %. The firm is now contemplating to redeem a part of capital by introducing debt financing. The firm has two options–to raise debt to the extend of 30 % or 50 % of total funds. It is expected that for debt financing upto 30 % the rate of interest will be 10 % and equity capitalisation rate is expected to increase 17 %. However, if firm opts for 50 % debt then interest rate will be 12 % and equity capitalisation rate will be 20 %.

You are required to compute the value of firm (V) and its overall cost of capital under different options.

(1 × 20 = 20 marks)