

# Model Questions for M.Com 2013-14 Batches (Under CBCS)

## 1<sup>st</sup> Semester

### Financial Management (1330300104)

Time – 3 Hours

Full Mark-70

#### SECTION - A

Answer any three of the following :( within 700-1000 words for theory question)  
(12×3=36)

- Q.1. Define the term Financial Management. Briefly describe the objectives and functions of financial management.
- Q.2. What is Accounting Rate of Return (ARR)? How it is calculated? Outline the merits and demerits of ARR.
- Q.3. Compute WACC of Elegant Ltd. from the following information:

Sources of fund	Amount(Rs.)	Cost of Capital (%)
Debt	15,00,000	5
Preference Share	12,00,000	10
Equity Share	18,00,000	12
Retain Earnings	15,00,000	11

- Q.4. A company expects a net income of Rs.80, 000/-. It has Rs.2, 00,000/-, 8% debenture. The equity capitalization rate of the company is 10%.
- (a) Calculate the value of the firm and overall capitalization rate according to NI Approach. (Ignore Tax)
- (b) If the debenture will increased to Rs.3, 00,000/-, what shall be Value of the firm and overall capitalization rate?
- Q.5. Make the comparison between Walter's model and Gordon's model in relation to dividend decision of a firm.
- Q.6. From the following projects of Francisco Ltd. For the coming year, you are asked to determine the working capital needs of the company.

Particulars	Amount(Rs.)
Annual sales	15,60,000
Cost of production(including depreciation of Rs. 1,30,000)	12,50,000
Raw material purchase	7,00,000
Opening stock of raw materials	1,50,000

Closing stock of raw materials 1,30,000  
Inventory norms:

- Raw materials:2 months
- WIP: ½ month
- Finished goods:1 month

The firm enjoys credit of one month on its purchase and also extends credit of 1 month to its supplier. It may be assumed that production is carried out evenly throughout the year and the minimum cash balance is to be maintained Rs.50, 000/-.

### SECTION - B

**Answer any three of the following: (within 400-500 words for theory question)  
(8x3=24)**

- Q.1. Explain the emerging role of CFO of a firm in financial management.
- Q.2. A firm is considering two financial plans with a view to examine their impact on EPS. The total fund required for investment in asset is Rs.5, 00,000.

Particulars	Plan I(Rs.)	Plan II(Rs.)
Equity Shares(Rs.10 each)	1,00,000	4,00,000
Debt(Interest @10% p.a)	4,00,000	1,00,000
Total Finance Required	5,00,000	5,00,000
No. of Equity Shares	10,000	40,000

The earnings before interest and tax are assumed as Rs.50, 000, Rs.75, 000 & Rs. 1, 25,000. The rate of tax is 50%. Comment which financial plan is better and why?

- Q.3. What is Trading on Equity? How does it help to maximize the equity earnings?
- Q.4. A project cost is Rs.16, 00,000 and is expected to generate cash inflow of Rs.8, 00, 000, Rs.7, 00,000 and Rs.6, 00,000 at end of each year for next 3 years. Calculate IRR on the basis of Trial and Error method.
- Q.5. What is receivable management? What are its objectives and benefits?
- Q.6. A firm considering an expenditure of Rs.60, 00,000 for expanding its operation. The relevant information is as follows:

Particulars	Amount
No. of existing equity share	10,00,000
Market value per existing equity share	Rs.60
Net earnings	Rs.90,00,000

Compute the cost of equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs.52 per share and the cost of new issue will be Rs.2 per share.

### SECTION - C

**Answer any two of the following :( within 150-200 words for theory question)  
(5x2=10)**

- (a) Net Present Value(NPV)
- (b) Stable dividend policy
- (c) B Ltd. Issued Rs.1, 00,000, 9% debenture at a premium of 5%.The cot of floatation and tax rate are 2% and 60% respectively. Compute the cost of debt.
- (d) EBIT= Rs.24, 00,000, Cost of debt= 8%, Cost of equity= 12%, tax rate= nil, Assume debt= Rs. 1, 00, 00,000. Using M-M Model, determine
  - Firm's Total market value.
  - Firm's value of equity.
  - Firm' leverage cost of equity.

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