M 27001

Reg. No. : ....

Name : ....

IV Semester M.A./M.Sc./M.Com. Degree (Reg./Sup./Imp.)
Examination, March 2015
COMMERCE
Paper – 16 : FINANCIAL MANAGEMENT

Time: 3 Hours Max. Marks : 80

SECTION – A

Answer **any 5** questions. **Each** carries **8** marks.

1. Discuss the various types of dividend policies.
2. What is lock box system ? How does it help to reduce the cash balances ?
3. The annual demand for a product is 6400 units. The unit cost is ₹ 6 and inventory carrying cost per unit is 25% of the average inventory cost. If the cost of procurement is ₹ 75, determine :
   a) Economic Order Quantity (EOQ)
   b) Number of orders per annum
   c) Time between two consecutive orders.
4. Travancore Fans Ltd. needs ₹ 5,00,000 for the expansion of its activities and it is expected to earn a rate of return of 10% on its investment. The management of the company is considering to finance this amount by retaining profits which otherwise shall be distributed to the shareholders. The shareholder, on an average, are in 60% tax bracket. If the shareholder reinvest their dividends, they will earn 12% on new investment but have to incur a brokerage of 2% on the purchase of new securities. What is your recommendation to the management keeping in view of the shareholders ?
5. What are the objectives of a good financial plan ?
6. What are the main function of the modern finance manager ? How do they differ from those of the traditional finance manager ?

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7. Explain the different tools as methods used by financial manager in performance of his job.

8. Distinguish between operating leverage and financial leverage. **(5×8=40)**

SECTION – B

Answer **any two** questions. **Each** carries **20** marks.

9. Explain the factors determining the capital structure.

10. Suresh motors, a producer of generators is on this situation : EBIT = ₹ 40 lakhs ; Tax rate = 35% Debt outstanding ₹ 20 lakhs : cost of debt 10%, cost of equity 15%, shares or stock outstanding 6,00,000 (Nos.) and book value per share ₹ 10/-. Since Suresh's product market is stable and the company expects no growth, all earnings are paid out as dividends. The debt consist of perpetual bonds.
    i) What are the Suresh's earning per share and its price per share ?
    ii) What is Suresh' weighted average cost of capital ?
    iii) Suresh can increase its debts by ₹ 80 lakhs to a total of ₹ 1 crore, using the new debt to buy back and retire some of its share at the current price. Its interest rate on debt will be 12% (it will have to call and refund the old debt) and its cost of equity will rise from 15% to 17% . EBIT will remain constant should Suresh change its capital structure.

11. Raj Brothers Private Ltd. sells goods on a gross profit of 25% depreciation is taken into account as a part of cost of production. The following are the annual figures given to you :

Sales (two months credit)	18,00,000
Material consumed (one month credit)	4,50,000
Wages (one month lag in payment)	3,60,000
Cash manufacturing expenses (one month lag)	4,80,000
Administration expenses (one month lag)	1,20,000
Sales promotion expenses (paid quarterly in advance)	60,000
Income tax payable in 4 installments of which one lies in next year	1,50,000

The company keeps one months ; stock each of raw material and finished goods. It also keeps ₹ 1,00,000 in cash. You are required to estimate the working capital requirement of the company on cash cost basis assuming 15% safety margin. Ignore work in progress.

12. What is cost of capital ? Explain the significance of cost of capital ? **(2×20=40)**

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