(NO. OF PAGES: 4)

(FOR THE CANDIDATES ADMITTED

DURING THE ACADEMIC YEAR 2024 ONLY)

24PCC205

REG.NO. :

N.G.M.COLLEGE (AUTONOMOUS) : POLLACHI

END-OF-SEMESTER EXAMINATIONS : MAY-2025

M.Com.-C.A **MAXIMUM MARKS: 75**

SEMESTER: II **TIME : 3 HOURS**

FINANCIAL MANAGEMENT

SECTION – A (10 X 1 = 10 MARKS)

ANSWER THE FOLLOWING QUESTIONS.

MULTIPLE CHOICE QUESTIONS. (K1)

1. _____ is that managerial activity which is concerned with the planning and controlling of the firm's financial resources.
   a) Cost Management b) Financial Management c) Financial Accounting d) Cost Accounting
2. The minimum acceptable rate of return on funds committed to the project is Project's _____.
   a) Cost of Capital b) Cost of Debt c) Cost of Equity d) Cost of Shares
3. _____ is using debt or borrowed capital to undertake an investment or project.
   a) Equity b) Debt c) Leverage d) Capital
4. Investment decision of a firm is known as _____.
   a) Capital Budgeting b) Credit Budgeting c) Debit Budgeting d) Asset Budgeting
5. Formula of Working Capital = _____.
   a) Current Assets + Current Liabilities b) Current Assets - Current Liabilities
   c) Current Assets x Current Liabilities d) Current Assets / Current Liabilities

ANSWER THE FOLLOWING IN ONE (OR) TWO SENTENCES. (K2)

6. Illustrate the types of Funds a firm can raise.
7. Indicate the basic inputs required for evaluating an investment project.
8. Define Capital Structure.
9. Explain the features of investment decision.
10. Compute Working capital when Current Asset is Rs. 2,00,000 and Current Liabilities is Rs.1,00,000.

SECTION – B (5 X 5 = 25 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. (K3)

11. a) Examine the Routine Finance Functions.

(OR)

b) Sketch the Job of Financial Manager.

12. a) Discover the reasons for time preference of money.

(OR)

b) List the significance of Cost of Capital.

(CONTD…….2)

13. a) Show the assumptions of Net Operating Income Approach.

(OR)

b) Interpret the assumptions of Walter's Model.

14.a) List the importance of investment decisions.

(OR)

b) Find out the merits and demerits of Risk Adjustment Discount Rate method.

15.a) A company is currently selling 100,000 units of its product at Rs. 50 each unit. At the current level of production, the cost per unit is Rs. 45, variable cost per unit being Rs. 40. The company is currently extending one month's credit to its customers. It is thinking of extending credit period to two months in the expectation that sales will increase by 25 percent. Compute incremental profit.

(OR)

b) Hi-tech Ltd. plans to sell 30,000 units next year. The expected cost of goods sold is as follows:

Rs. (Per Unit)

Raw material	100
Manufacturing expenses	30
Selling, administration and financial expenses	20
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows:

Raw material stage	2 months
Work-in-progress stage	1 month
Finished stage	1/2 month
Debtors stage	1 month

Assuming the monthly sales level of 2,500 units, estimate the gross working capital requirement. Desired cash balance is 5% of the gross working capital requirement, and working- progress in 25% complete with respect to manufacturing expenses.

SECTION – C (5 X 8 = 40 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. (K4 (Or) K5)

16. a) Analyse the Managerial Finance Function.

(OR)

b) Point out the treasurer's functions and controller's functions.

17. a) The following is the capital structure of a firm:

Source of finance	**Amount Rs.**	**Proportion (%)**
Equity share capital	4,50,000	45
Retained earnings (Reserves)	1,50,000	15
Preference share capital	1,00,000	10
Debt	3,00,000	30
	10,00,000	100

(CONTD …. 3)

The firm's expected after-tax component costs of the various sources of finance are as follows:

Source	Cost (%)
Equity capital	14.0
Retained earnings	14.0
Preference capital	10.0
Debt	4.5

Compute the weighted average cost of capital of the firm, based on the existing capital structure.

(OR)

17 b) The Kay Company has the following capital structure at 31 March 2014 which is considered to be optimum.

7% Debentures	Rs. 3,00,000
9% Preference	Rs. 1,00,000
Equity (1,00,000 shares)	Rs. 16,00,000
	Rs. 20,00,000

The company's share are selling a current market price of Rs. 23.60 per share. The expected dividend per share next year is 50 per cent of the 2014 EPS. The following are the earnings per share figure for the company during the preceding ten years. The past trends are expected to continue.

Year	EPS	Year	EPS
2005	1.00	2010	1.61
2006	1.10	2011	1.77
2007	1.21	2012	1.95
2008	1.33	2013	2.15
2009	1.46	2014	2.36

The company can issue 13 per cent new debentures. The company's debenture is currently selling at Rs. 96. The new preference issue can be sold at a net price of Rs. 20, paying a dividend of Rs. 2 per share. The company's marginal tax rate is 50 per cent.

(a) Calculate the after-tax cost (i) of new debt, (ii) of new preference capital and (iii) of common equity, assuming new equity comes from retained earnings.

(b) Find the marginal cost of capital, again assuming no new common shares are sold.

(c) How much can be spent for capital investment before new common shares must be sold? Assume that retained earnings available for next year's investment is 50 per cent of 2014 earnings.

(d) What is the marginal cost of capital (cost of funds raised in excess of the amount calculated in part (c), if the firm can sell new ordinary shares to net Rs. 20 a share? The cost of debt and of preference capital is constant.

18. a) Calculate the level of EBIT at which the indifference point between the following financing alternatives will occur

(i) Common share capital of Rs. 10,00,000 or 15% debentures of Rs. 5,00,000 and common share capital of Rs. 5,00,000.

(ii) Common share capital of Rs. 10,00,000 or 13% preference share capital of Rs. 5,00,000 and common share capital of Rs. 5,00,000.

(iii) Common share capital of Rs. 10,00,000 or common share capital of Rs. 5,00,000, 13% preference share capital of Rs. 2,00,000 and 15% debentures of Rs. 3,00,000,

(iv) Common share capital of Rs. 6,00,000 and 15% debentures of Rs. 4,00,000 or common share capital of Rs. 2,00,000 and 15% debentures of Rs. 4,00,000.

(v) Common share capital of Rs. 8,00,000 and 13% preference share capital of Rs. 2,00,000 or common share capital of Rs. 4,00,000, 13% preference share capital of Rs. 2,00,000 and 15% debentures of Rs. 4,00,000.

(CONTD …. 5)

(OR)

b) A company has a total investment of Rs. 5,00,000 in assets, and 50,000 outstanding common shares at Rs. 10 per share (par value). It earns a rate of 15 per cent on its investment, and has a policy of retaining 50 per cent of the earnings. If the appropriate discount rate of the firm is 10 per cent, determine the price of its share using Gordon's model. What shall happen to the price of the share if the company has a payout of 80 per cent or 20 per cent?

19.a) A project will cost Rs. 40,000. Its stream of income before depreciation, interest and taxes (EBDIT) during first year through five years is expected to be Rs. 10,000, Rs. 12,000, Rs. 14,000, Rs. 16,000 and Rs. 20,000. Assume a 50 per cent tax rate and depreciation on straight line basis. Compute Project's ARR.

(OR)

b) A company is considering the following investment projects:

Cash Flows **(Rs.)**

Projects	**C0**	**C1**	**C2**	**C3**
A	-10,000	+10,000		
B	-10,000	+7,500	+7,500	
C	- 10,000	+2,000	+4,000	+12,000
D	-10,000	+10,000	+3,000	+3,000

(a) Rank the projects according to NPV-assuming discount rates of 10 and 30 per cent.

(b) Assuming the projects are independent, which one should be accepted? If the projects are mutually exclusive, which project is the best?

20.a) Determine the determinants of Working Capital.

(OR)

b) Elaborate the constituents of an effective inventory management.

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ETHICAL PAPER