QP Code: P25C007

Reg. No : .....

Name : .....

ST MARY'S COLLEGE (AUTONOMOUS), THRISSUR-20

III SEMESTER (CBCSS - PG) DEGREE EXAMINATIONS, OCTOBER 2025

M. Com.

MCM3C11 : FINANCIAL MANAGEMENT

2024 Admission Onwards

Time:3 Hours **Maximum Weightage:30**

Part A

*Short answer type questions: Answer **any four** questions. Weightage **2** for each question.*

(4x2 = 8 Weightage)

1. Explain time value of money. What are its reasons?
2. A company issues Rs. 10,00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amounts to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before tax and after tax cost of debt assuming a tax rate of 50%.
3. Briefly explain the various principles of working capital management.
4. Explain marketable securities. What are the factors determining the selection of marketable securities?
5. Explain optimum capital structure. What are the essential requisites of an optimal capital structure?
6. A new project under consideration by A Ltd. requires a capital investment of 15 Crores, interest on term loan is 12% and tax rate is 50%. The financial institutions insist on a debt-equity of 2:1. Calculate the point of indifference for the project.
7. Distinguish between over capitalisation and under capitalisation.

Part B

*Short essay-type questions: Answer **any four** questions. Weightage **3** for each question.*

(4x3 = 12 Weightage)

8. Briefly explain the objectives of financial management.
9. Why lease finance is needed in India by the corporate sector? Briefly explain the various types of lease.
10. i) Explain the importance of cost of capital in managerial decisions.
    ii) A firm is considering an expenditure of 60 lakhs for expanding its operations. The relevant information is as follows:
    Number of existing equity shares 10 lakhs
    Market value of existing share Rs. 60

Turn Over

Net earnings Rs. 90 lakhs

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

11. i) The finance department of a Corporation provides the following information:
(a) The carrying costs per unit of inventory are 10.
(b) The fixed costs per order are 20.
(c) The number of units required is 30,000 per year.
Determine the economic order quantity (EOQ), total number of orders in a year and the time gap between two orders. ii) The following information is available in respect of component 055: Maximum stock level: 8,400 units Budged consumption:
Maximum 1,500 units per month
Minimum 800 units per month
Estimated delivery period:
Maximum 4 months
Minimum 2 months
You are required to calculate: (a) Re-order level (b) Re-order quantity

12. A Ltd. company has equity share capital of Rs. 500000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 300000 for expansion. The company plans the following financing schemes.

    a. All equity
    b. One lakh in equity and the rest in debt @ 10% p.a
    c. All debts at 10% p.a
    d. One lakh in equity and two lakh preference share capital with the rate of dividend at 8%.

    The company's EBIT is 150000 and the tax rate is 50%. Determine EPS in each plan and comment on the implications of financial leverage.

13. The capital structure of a company consists of an equity share capital of Rs. 600000 (shares of Rs. 10 each) and Rs. 600000, 10 % debentures. Sales increased by 20 % from 30000 units to 36000 units, the selling price is Rs. 20 per unit. Variable cost is Rs. 12 per unit and fixed costs amounted to Rs. 100000. The company's tax rate is 50%. Compute DOL, DFL, DCL.
14. Briefly explain the determinants of dividend policy.

Part C

*Essay-type questions: Answer **any two** questions. Weightage **5** for each question.*

(2x5 = 10 Weightage)

15. Critically examine the various methods of evaluation of capital budgeting proposals. Discuss their advantages and disadvantages.

Turn Over

16. A firm has the following capital structure and after-tax costs for the different sources of funds used.

Source of Funds	Amount	Proportion (%)	After-tax Cost (%)
Debt	4,50,000	30	7
Preference Capital	3,75,000	25	10
Equity Capital	6,75,000	45	15

a. Calculate the weighted average cost of capital using book-value weights.

b. The firm wishes to raise further 6,00,000 for the expansion of the project as below.

Source of Funds	Amount
Debt	3,00,000
Preference Capital	1,50,000
Equity Capital	1,50,000

Assuming that specific costs do not change, compute the weighted marginal cost of capital.

17. The following is the data regarding two companies A and B belonging to the same equivalent risk class:

	Company A	Company B
Number of ordinary shares	90,000	1,50,000
Market price per share	Rs. 1.20	Rs. 1.00
6% Debentures	60,000	
Profit before interest	Rs. 18000	Rs. 18000

All profits after debenture interest are distributed as dividends:

You are required to explain how under Modigliani and Miller approach, an investor holding 10% of shares in company A will be better off in switching his holding to company B.

18. Kairali Finance Ltd. has 15000 equity shares outstanding as on date. Currently the shares of the company is being traded at a price of Rs. 125 per share. It is expected that the firm would pay dividend of Rs. 5 per share in the next year. The firm has a new investment opportunity of Rs. 5, 00,000. The shareholder's expected rate of return is 12% and the firm expected to have a net profit of Rs. 2, 50,000 at the end of the year. Illustrate MM approach that payment of dividend has no impact on the value of the firm.

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