The profits before depreciation and after taxes (Cash flows) are as follows :

	Year 1 (Rs.)	Year 2 (Rs.)	Year 3 (Rs.)	Year 4 (Rs.)	Year 5 (Rs.)
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

16. From the following details you are required to make an assessment of the average amount of Working Capital requirement of *AB* Ltd.

Items	Average period of Credit	Estimate for the First Year (Rs.)
Purchase of Material	6 weeks	26,00,000
Wages	$1\frac{1}{2}$ weeks	19,50,000
Overheads :		
Rent, Rates etc	6 months	1,00,000
Salaries	1 month	8,00,000
Other Overheads	2 months	7,50,000
Sales (Cash)	–	2,00,000
Sales (Credit)	2 months	60,00,000
Average amount of stock and working progress	–	4,00,000
Average amount of undrawn profit	–	3,00,000

It is assumed that all expenses and incomes were made at even rate for the year.

MCOM 1004

M.Com. DEGREE EXAMINATION, DECEMBER 2015/ JANUARY 2016.

First Year/Non-Semester

Commerce

FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

PART A — (5 × 8 = 40 marks)

Answer any FIVE out of Eight questions.

1. The primary objective of Financial Management is Shareholders' Wealth Maximization. Explain with real life examples. How can we measure Shareholders Wealth?

2. How should the finance function of an enterprise be organized? What functions are performed by the financial officers?

3. Explain the characteristics of optimum Capital Structure.

4. Explain the different types of Working Capital.

5. What is meant by Working Capital? Analyse the factors determining the same.

6. A firm has the following Capital Structure and after-tax costs for the different sources of funds used :

Source of funds	Amount (Rs.)	Proportion (%)	After-tax cost (%)
Debt	15,00,000	25	5
Preference Shares	12,00,000	20	10
Equity Shares	18,00,000	30	12
Retained Earnings	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the Weighted Average Cost of Capital.

7. Income Statement of Zenith Ltd is given below. Calculate and interpret its degree of operating leverage, degree of financial leverage and degree of combined leverage.

Income statement of Zenith Ltd for the year ended 31st March 2010.

	Rs.
Sales	10,50,000
Variable cost	7,67,000
Fixed Cost	75,000
EBIT	2,08,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

8. Write short notes on Walter's Model and Gorden's Model.

PART B — (5 × 12 = 60 marks)

Answer any FIVE out of Eight questions.

9. What is Financial Management? Discuss the functional areas covered in Financial Management.

10. Discuss the significance of Cost of Capital.

11. Explain the factors influencing the capital structure of a company.

12. As a financial manager. What factors will you consider while devising a dividend policy of a company?

13. Discuss the different Capital Budgeting Evaluation Techniques giving the advantages and limitations of each.

14. Explain the theories of Capital Structure.

15. From the following information calculate the Net Present Value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

	Project X	Project Y
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 Years	5 Years
Scrap Value	Rs. 1,000	Rs. 2,000