C/D

# TILAK MAHARASHTRA VIDYAPEETH, PUNE
## MASTER OF COMMERCE (M.COM.)
## EXAMINATION : MAY - 2016
## FIRST SEMESTER
### Sub: Financial Management (MCA - 112/MCA - 106)

**Date: 30/05/2016** **Total Marks :60** **Time: 10.00 am to 12.30 pm**

**Instructions:**
1) All questions are compulsory.
2) Figures to the right indicate full marks.

**Q.1 Answer the following questions. (Attempt any two)** **(32)**

**1** A firm has a capital structure consisting of only ordinary shares amounting to Rs.5,00,000. The firm now wishes to raise additional Rs. 5,00,000 for expansion. The firm has four alternative Financial plans:

A. Raise the entire amount in the form of equity capital
B. Raise 50% in the formof equity capital and 50% as 6% Debentures
C. Raise the entire amount as 8% Debentures
D. Raise 50% in the form of equity capital and 50% as 6% Preference Shares.

Assume that existing EBIT are Rs 1,00,000 the tax rate is 50%. Existing ordinary shares are 5,000 and the market per share is Rs 100 under all above alternatives. Rank the alternatives as per EPS.

**2** ABC Company wishes to arrange overdraft facility with its bankers during the period April to June 2014. In this period company will be mostlty manufactring for stock . Prepare a cash budget for the above peroid from the following data, indicating the extent of bank facilitis the company will require at the end of the month.

| Month | Sales Rs | Purchases Rs | Wages Rs |
|---|---|---|---|
| Feb 2013 | 2,00,000 | 1,10,000 | 20000 |
| March 2013 | 2,20,000 | 1,20,000 | 25,000 |
| April 2013 | 2,40,000 | 1,30,000 | 30,000 |
| May 2013 | 2,60,000 | 1,40,000 | 35,000 |
| June 2013 | 2,80,000 | 1,50,000 | 40,000 |

A. 50% of Credit Sales are realized in the month following the sale and remaining 50% in the secound month following
B. Creditors are paid in the month following the month of purchase
C. Wages are paid in the same month
D. Expected cash at bank on 1-04-2014 Rs:- 20,000

**3** C Ltd. has Rs 5,00,000 as its capital contributed by shares and debentures as follows:

| **Particulars** | **Book Values** | **Market Value** |
|---|---|---|
| Equity Shares | 2,00,000 | 3,00,000 |
| Preference shares | 1,00,000 | 1,20,000 |
| Debentures | 2,00,000 | 1,80,000 |
| **Total** | **5,00,000** | **6,00,000** |

The following costs are incured on the above mentioned issues of capital. Corporate tax rate is 50%

1. Price of shares is currently Rs 150 and rate of dividend is Rs. 8 per share which is expected to grow at end of the year by 7%
2. Rate of preference dividend is 11% and its market price is Rs 125.
3. Debentures are carrying interest rate of 9%

Compute the weighted average cost of capital using

i) Book Value as weights

ii) Market Value as weights

**4**. A firm has sales of RS 40,00,000 variable cost of Rs 20,00,000 and fixed cost of Rs 4,00,000. Capital of company is also consisting of debts of Rs 20,00,000 carrying interest rate of 10%. What are Operating, Financial and Combines Leverage? If the firm wants to double its earning before interest and tax i.e. EBIT then how mush rise in sales would be needed?

**Q.2 Answer the following. (Attempt any one) (08)**

1 What are the various short term sources of finanace?

2 Explain the concept of Strategic Planning. Discuss its long term strategies.

3 Calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of combined Leverage for the following firm

| | | |
|---|---|---|
| 1. | Output in Units | 15,000 |
| 2. | Fixed Cost | 14,000 |
| 3. | Variable Cost per Unit | 1.50 |
| 4. | Interest on Borrowed Funds | 8,000 |
| 5. | Selling Price per Unit | 5.00 |

**Q.3 Write short notes. (Attempt any two) (10)**

1 Credit policy.

2 Collection program

3 Net Income Approach

4 Agency theory

**Q.4 Select the Correct Alternatives (Attempt Any Ten) (10)**

**1.** Weighted average cost of capital is generally denoted by _____________.

a. Kd b. Ko

c. Ke d. Kp

**2.** _______________ is a cost of maintaining receivables.

a. Variable cost | b. Fixed cost
c. Operating cost | d. Defaulting Cost

**3.** _____________ of the following is not a variable of credit policy.

a. Collection policy | b. Credit terms
c. Cash discount term | d. Sales Price

**4.** Bad debt cost is not borne by factor in case of __________.

a. Pure Factoring | b. With Recourse Factoring
c. Without Recourse Factoring | d. None of the above

**5.** Agency theory refers to ____________.

a. Relationship between parties | b. Inflation
c. Interest | d. Demand

**6.** Operating leverage is obtained by division of sales by____________.

a. EBIT | b. Fixed Cost
c. Dividend | d. EBT

**7.** ___________ is not a non-financial objective of a firm.

a. Employee welfare | b. Wealth creation
c. Paying taxes | d. Society welfare

**8.** Net income approach and traditional approach as based on _______ of a firm.

a. Loans | b. EBIT
c. Capital Structure | d. Leverages

**9.** Financial Management refers to ___________.

a. Management of current assets | b. Financial decision making
c. Management of all assets | d. Management of liabilities

**10.** The objective of collection policy is to achieve ______________.

a. Timely collection of receivables | b. Balancing leverages
c. Lowering fixed cost | d. None of the above

**11.** EBIT-EPS analysis is a method to the study the effect of _______

a. Inflation | b. Leverage
c. Demand | d. Variable Cost

**12.** Cheapest source of capital is ________.

a. Equity Shares | b. Debentures
c. Preferences Shares | d. Loans

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