

**SET A**

**PART I**

**Paper – III – 12CMPCM03**

**FINANCIAL MANAGEMENT**

**M.Phil – COMMERCE Degree Examination**

**Time: 3 Hours**

**Max. Marks: 75**

**PART A**

**Answer All Questions (5 X 5 = 25)**

**All question carry equal marks**

1. a. What are the objectives of financial management?  
Or  
b. Briefly explain long term and short term financial planning.
2. a. Define cost of capital. Explain its significance.  
Or  
b. Explain the Modigliani Miller hypothesis of irrelevance of capital structure.
3. a. Define dividend. What are the forms of dividend?  
Or  
b. What are the advantages of share buyback?
4. a. Is excess working capital dangerous, why?  
Or  
b. Explain the concept of working capital.
5. a. How are bond valued?  
Or  
b. What is the significance of P/E ratio?

**PART B**

**Answer All Questions (5 X 10 = 50)**

**All question carry equal marks**

1. a. Explain the functions of financial management.  
Or  
b. What are the factors affecting financial planning?
2. a. What do you mean by capital structure? Discuss the factors influencing the capital structure of a company?  
Or

b. Define cost of capital. How will you determine the cost of capital from different sources?

3. a. The earnings per share of a company is Rs.8 and the rate of capitalization applicable is 10%. The company has before it, an option of adopting (i) 50, (ii) 75 and (iii) 100 % dividend pay out ratio. Compute the market price of the company's quoted shares as per Walter's model if it can earn a return of (a) 15, (b) 10 and (c) on its retained earnings.

Or

b. What are the factors to determining dividend policy.

4. a. Briefly explain factors that determine the working capital needs of a firm.

Or

b. Explain the risk analysis policies in working capital.

5. a. Define systematic unsystematic risks. Give examples of both.

Or

b. Explain the security market line with the help of a figure. How does it differ from capital market line?

**SET B**

**PART I**

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**PART A**

**Answer All Questions (5 X 5 = 25)**

**All question carry equal marks**

1. a. What is wealth maximization goal? How is it superior to profit maximization goal?  
Or  
b. Briefly explain and illustrate the concept of time 'value of money'.
2. a. Write short notes on: (1) Net Income approach; (2) Net Operating Income approach  
Or  
b. Let us suppose that a firm has 20% debt and 80% equity in its capital structure. The cost of debt and the cost of equity are assumed to be 10% and 15% respectively. What is the overall cost of capital, according to the traditional approach?
3. a. What is a bonus issue/stock dividend? What are its advantages and disadvantages?  
Or  
b. Explain the new guidelines of SEBI on issue of bonus shares?
4. a. Explain the concept of working capital.  
Or  
b. What is opportunity cycle concept of working capital?
5. a. How are shares valued?  
Or  
b. What are the features of bond?

**PART B**

**Answer All Questions (5 X 10 = 50)**

**All question carry equal marks**

6. a. Describe the salient features of the modern approaches to financial management.  
Or  
b. Explain the difference between the future value and present value?
7. a. Explain the relevance of capital structure.

Or

b. What is the CAPM approach for calculating the cost of equity? What is the difference between this approach and the constant growth approach?

8. a. What is Modigliani Miller dividend irrelevance hypothesis? Critically evaluate its assumptions.

Or

b. The earnings per share of a company is Rs.8 and the rate of capitalization applicable is 10%. The company has before it, an option of adopting (i) 50, (ii) 75 and (iii) 100 % dividend pay out ratio. Compute the market price of the company's quoted shares as per Walter's model if it can earn a return of (a) 15, (b) 10 and (c) on its retained earnings.

9. a. How has the company managed its working capital in the past? Illustrate with appropriate calculations.

Or

b. Critically evaluate working capital management practices in seasonal industries.

10. a. Explain the value of shares under constant growth model.

Or

b. Show the use of Capital Asset Pricing Model (CAPM) in the valuation of shares.