STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004-2005 & thereafter)

SUBJECT CODE : **CM/PS/FM35**

M.Com. DEGREE EXAMINATION NOVEMBER 2007
COMMERCE
THIRD SEMESTER

COURSE : **SPECIALISATION – CORE**
PAPER : **FINANCIAL MANAGEMENT**
TIME : **3 HOURS** **MAX. MARKS : 100**

SECTION – A

ANSWER ANY FIVE QUESTIONS: (5 x 8 = 40)

1. Explain the various financial management decisions to be taken of by a business firm.

2. Cost of Capital is the function of Management preferences – comment.

3. Discuss the advantages of Stock split or Stock dividend over Cash dividend.

4. A Company has to choose one of the following two mutually exclusive projects. Investment required for each project is Rs.15,00,000 lakhs. Both the projects have to be depreciated on Straight line basis, and tax rate is 50%.

Year	Profit before depreciation	
	Project – A	Project – B
1	420000	420000
2	480000	480000
3	700000	400000
4	700000	500000
5	200000	200000

Calculate PAY BACK PERIOD.

5. What is ‘Indifference point. Illustrate with suitable examples.

6. A company has the following capital structure:

SECURITIES	BOOK VALUE IN Rs.	AFTER TAX COST (%)
Equity share capital	9,00,000	15
Retained Earnings	3,00,000	15
Preferred capital	2,00,000	8
Debentures	16,00,000	6
	30,00,000	

From the above information, you are required to find out weighed average cost of capital.

7. Aries limited wishes to raise additional finance of Rs.10 lakh for meeting its investment plans. It has Rs.2,10,000 in the form of retained earning available for investment purposes.

   The following are the further details:
   i) Debt-Equity mix 30:70
   ii) Cost of debt: upto Rs.1,80,000, 10% (before tax); beyond Rs.1,80,000, 12% (before tax)
   iii) Earnings per share, Rs.4
   iv) Dividend payout, 50% of earning
   v) Expected growth rate in dividend, 10%.
   vi) Current market price pershare, Rs.44
   vii) Tax rate, 35%

   You are required a) To determine the pattern for raising the additional finance, assuming the firm intends to maintain existing debt/Equity mix b) To determine the post-tax cost of additional debt. c) To determine the cost of retained earnings and cost of equity.

8. Calculate the degree of Operating &, Financial leverages under situations A and B for the Financial plans I & II respectively from the following relating to the Capital structure of Jeans Ltd:

   Installed capacity 1000 Units; Actual production and sales: 800 units
   Selling price per unit Rs.20; Variable cost per unit Rs.15
   Fixed cost: Situation – A Rs.800. Situation – B Rs.1,500.

Financial plan:	I	II
Equity capital	Rs.5,000	Rs.7,000
Debt	Rs.5,000	Rs.2,000 (cost of Debt @ 10%).

SECTION – B

ANSWER ANY THREE QUESTIONS: (3 x 60 = 40)

9. Explain the features and limitations of three approaches to the determination of firm's capital structure:
   a) EBIT-EPS approach
   b) valuation approach and
   c) Cash flow approach.

10. What is "Cash Cycle"? How are cash cycle and cash turnover of a firm related? What should be the firm's objectives with respect to effective cash management?

11. While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for that period. Add 10% to your computed figure to allow contingencies:

Estimated cost per unit of production	Amount per unit
Raw Material	Rs.80
Direct labour	30
Overheads (including depreciation Rs.10 per unit)	70
Total cost	180

Additional information:

Selling price, Rs.200 per unit

Level of activity, 1,04,000 units of production per annum Raw Materials in stock, average 4 weeks. Work in progress (assume 50% completion stage in respect of conversion costs and 100% completion in respect of Materials), average 2 weeks. Finished goods in stock, avarage 4 weeks. Credit allowed by suppliers, average 4 weeks. Credit allowed to customers, average 8 weeks. Lag in Payment of wages, average 1.5 weeks. Cash at Bank is expected to be Rs.25,000.

You may assume the production is carried on evenly throughout the year (52 weeks).

12. Metro Transport curently has 10,00,000 shares of Equity outstanding with a market price of Rs.50 per share. It also has Rs.4,00,000 in 12% Bonds. The company is considering Rs.5,00,000 expansion programme that it can finance either (i) All Equity shares at Rs.40 per share. (ii) Straight Bonds at 15% interest (iii) Preference shares at 14% or (iv) Half Equity Shares at Rs.40 per share and half 15% Bonds.

a) For a EBIT level of Rs.2,50,000 after the expansion programme, Calculate the earnings per share for each of the alternatives methods of financing. Assume a corporate tax rate of 50%.
b) What are the "Indifference points" between alternatives? Calculate EPS at these Indifference points? What is your opinion of these?

13. Joy Instruments is considering the purchase of a machine tool to replace an existing tool that has a book value Rs.24,000 and can be sold for Rs.12,000. The salvage value of the old machine in four years is Zero and it is depreciated on a straight line basis.

The proposed machine will perform the same function the old machine is performing; however improvements in technology will enable the firm to reap cash benefits (before depreciation & taxes) of Rs.56,000 per year in material, labour and overhead.

The new machine which has 4 year life, costs Rs.1,12,000 and can be sold for a expected sum of Rs.16,000 at the end of the 4^{th} year.

Assuming straight line depreciation and a 40% tax rate, compute the cash flows associated with this replacement.