STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2019-20 and thereafter)

SUBJECT CODE: 19CM/MC/FM44

B.Com. DEGREE EXAMINATION APRIL 2021

COMMERCE

FOURTH SEMESTER

COURSE : MAJOR – CORE
PAPER : FINANCIAL MANAGEMENT
TIME : 90 MINUTES **MAX. MARKS: 50**

SECTION –A
Answer all the Questions **(3x2=6)**

1. The following information is available in respect of Amla Ltd.
   Stock holding: Raw materials 1 month, Work-in-progress : 15 days, Finished goods : 1month. Debtors collection period : 2 months, time lag in payment of bills : 45 days. Calculate
   (a) Operating cycle
   (b) Number of operating cycle in a year assuming a 360 day year
   (c) Average working capital required, if annual cash operating expenses are Rs. 180 lakhs.
2. Asin Ltd. issued 15,000 12% preference shares of Rs. 100 each, redeemable at 10% premium after 10 years. The floatation costs were 5%. Find out the cost of preference share capital if shares are issued at a premium of 5%.
3. Why is debt the cheapest source of finance for a profit making firm?

SECTION –B
Answer any Three Questions **(3x8=24)**

4. Wealth Maximization is superior than Profit Maximization – Explain.

5. An executive is about to retire at age of 60. His employer has offered him two Post- retirement options:
   a. Rs.20, 00,000 lump sum, b. Rs.2, 50,000 for 10 years. Assuming 10% interest, Which is better option?
   b. A company is offered a contract which has the following terms: An immediate cash outlay of Rs.15, 000 followed by a cash inflow of Rs.17, 900 after 3 years. What is the company's rate of return on this contract?
   c. An amount of Rs.1, 000 is deposited into an interest – bearing account that pays 10% interest compounded yearly. The investor's goal is Rs.1, 500. How many years must the principle earn compound interest before the desired amount is realized?

6. A Ltd. Has a share capital of Rs .1,00,000 divided into share of Rs. 10 each. It has a major expansion program requiring an investment of another Rs. 50,000. The Management is considering the following alternatives for raising this amount : Issue of 5,000 equity shares of Rs. 10 each Issue of 5000, 12% preference shares of Rs.

10 each Issue of 10% debentures of Rs. 50,000 The company's present Earning Before Interest and Tax (EBIT) are Rs. 40,000 per annum subject to tax @ 50%. You are required to calculate the effect of the above financial plan on the earnings per share presuming:
(a) EBIT continues to be the same even after expansion
(b) EBIT increases by Rs. 10,000
(c) EBIT decreases by Rs.10,000.

7. The following is the capital structure of A Ltd:
Equity capital Rs.10 each Rs. 5 lakhs
Reserves Rs.3 lakhs
12% Preference share capital Rs.10 each Rs.2 lakhs
14% Debentures Rs.100 each Rs.4 lakhs
The equity shares of the company are currently sold in the market at Rs.40 per share. The last dividend paid is Rs.4 per share and the dividend is expected to grow at 8% per annum. The tax rate is 30%.
Calculate the weighted average cost of capital, using book value as weights.
The company plans an expansion in the next year, which will be financed by Rs.5,00,000 16% bank loan. What will be the revised weighted average cost of capital, using market value as weights, if the dividend expected next year is Rs.4.50, the growth rate in dividend increases to 10% per annum and the likely market price of equity will be Rs.45?

SECTION –C
Answer any One Question **(1x20=20)**

8. a. A company has prepared its annual budget, relevant details are reproduced below:
(i) Sales Rs. 46.80 lakhs : 78,000 units (25% cash sales)
(ii) Raw materials cost : 60% of sales value
(iii) Labour cost : Rs. 6 per unit
(iv) Variable O.H : Re. 1 per unit
(v) Fixed overheads : Rs. 5 lakhs (including Rs. 1,10,000 as depreciation)
(vi) Budgeted stock levels: Raw materials : 3 weeks Work in progress : 1 week (material 100%, labour and overheads 50%) Finished goods : 2 weeks
(vii) period of credit allowed to debtors : 4 weeks
(viii) period of credit allowed by creditors : 4 weeks
(ix) wages are paid : Bimonthly
(x) Lag in payment of overheads : 2 weeks
(xi) Cash in hand required : Rs. 50,000
Prepare the working capital budget for the company.

b. A firm has sales of Rs.11,00,000, variable cost of Rs.8,00,000 and fixed cost of Rs. 2,00,000 inclusive of interest of Rs. 50,000.
a) Calculate operating leverage, financial leverage and combined leverage.
b) If the firm decides to double its EBIT, how much of a rise in sales would be needed on a percentage basis?

9. A company is considering an investment proposal to instal new milling controls. The project will cost Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The company tax rate is 35%. The firm uses straight line depreciation. The estimated profit before tax from the proposed investment proposal are as follows:

Year	Profit Before Depreciation and Tax
1	Rs.10,000
2	Rs.11,000
3	Rs.14,000
4	Rs.15,000
5	Rs.25,000

Compute the following:

a. Payback period

b. Average Rate of Return

c. Net present Value at 10% discount rate

d. Profitability Index at 10% discount rate

e. Internal rate of return

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