STELLA MARIS COLLEGE (AUTONOMOUS), CHENNAI – 600086.
(For candidates admitted during the academic year 2019-2020 and thereafter)

SUBJECT CODE:19AF/MC/FM34
B.Com (A&F) DEGREE EXAMINATION DECEMBER 2020
ACCOUNTING AND FINANCE

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

Section A
Answer All the Questions **(3 x 2 = 6)**

1. Define Financial Management.
2. The Market Price of an equity share of Mills Ltd., is Rs 120. The expected equity dividend is Rs 2.40 per share. The shareholders anticipate a growth of 10% in dividends. Calculate cost of equity capital.
3. Project K requires an investment of Rs 20 lakhs and yields after tax and depreciation as follows:

Year	1	2	3	4	5
Profit after tax and depreciation (Rs)	1,00,000	1,50,000	2,50,000	2,60,000	1,60,000

At the end of 5th year, the plant can be sold for Rs 1,60,000. Calculate Average Rate of Return.

Section B
Answer Any Three Questions **(3 x 8 = 24)**

4. The following projections have been given in respect of B Ltd.,

   Output – 3,00,000 uts
   Fixed cost – Rs 3,50,000
   Unit Variable cost – Re 1
   Interest expense – Rs 25,000
   Unit selling price – Rs 3

   Calculate (a) Operating leverage (b)Financial leverage (c) Combined leverage
   (d) Operating break-even point (e)Financial break-even point

5. (a) A firm borrows Rs 10,00,000 at an interest rate of 15% and the loan is to be repaid in 5 equal instalments at the end of each year. Prepare amortization schedule.

(b) The expected cash inflows are as follows:

Year	1	2	3	4	5
Cash inflow(Rs)	3000	4500	6000	8000	10,000

Discount rate is 16%. Find out the present value of cash inflows using the following P.V factors

I – 0.862, II – 0.743, III – 0.641, IV – 0.552, V – 0.476

6. From the following information calculate operating cycle of a company.

   Raw materials consumption per annum – Rs 8,42,000

   Annual cost of production – Rs 14,25,000

   Annual cost of sales- Rs 15,30,000

   Annual sales – Rs 19,50,000

   Average value of current assets held:

   Raw materials – Rs 2,24,000

   Work –in –progress – Rs 1,54,000

   Finished goods – Rs 2,44,000

   Debtors – Rs 5,20,000.

   The company gets 30 days credit from its suppliers. All sales made by the firm are on credit only. Assume one year as equal to 365 days.

7. It is proposed to introduce a new machine to increase the production capacity of department X. Two machines are available, Type 'A' and Type 'B'. The following information is available.

Particulars	Type A (Rs)	Type B (Rs)
Cost of Machine	3,50,000	6,30,000
Estimated life(in yrs)	7	10
Estimated savings in scrap p.a	20,000	32,000
Additional cost of Indirect materials per annum	10,000	16,000
Estimated savings in wages		
Employees not required	15	20
Wages per employee per annum	10,000	16,000
Additional cost of maintenance per annum	7,200	12,000
Additional cost of supervision per annum	24,000	36,000

The rate of taxation can be regarded as 50% of profits. Which machine can be recommended for purchase?

Section C

Answer Any One Question **(1 x 20 = 20)**

8. Suriya Ltd., has the following capital structure:

4000 Equity shares of Rs 100 each -	Rs 4,00,000
10% Preference shares	Rs 1,00,000
11% Debentures	Rs 5,00,000

The current market price of the share is Rs 102. The company is expected to declare a dividend of Rs 10 at the end of the current year, with an expected growth rate of 10%. The applicable tax rate is 50%.

(a) Find out the cost of equity capital and Weighted Average Cost of Capital

(b) Assuming that the company can raise Rs 3,00,000 12% debentures, find out the new Weighted Average Cost of Capital if

(i) dividend rate is increased from 10% to 12%

(ii)Growth rate is reduced from 10% to 8% and

(c)Market price is reduced to Rs 98.

9. X Ltd., is considering investing in a project requiring a capital outlay of Rs 8,00,000. The annual net income after depreciation but before taxes are as follows:

Year	1	2	3	4	5
Profit(Rs)	4,00,000	4,00,000	3,20,000	3,20,000	1,60,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

Evaluate the project according to each of the following methods

(a) Payback Method

(b) Rate of return on original investment method

(c) Rate of return on average investment method

(d) NPV taking cost of capital @ 10%

(e) Profitability Index Method

(f) Internal Rate of return method.

Discount factor @ 10% from years 1 to 5 are as follows

Year 1 – 0.909, Year 2 – 0.826, Year 3 – 0.751, Year 4 – 0.683, Year 5 – 0.621

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