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

SUBJECT CODE: 19CO/MC/IF34

B.Com (CS) DEGREE EXAMINATION DECEMBER 2020
CORPORATE SECRETARYSHIP
THIRD SEMESTER

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

Section A
Answer ALL the questions. **(3x 2 = 6)**

1. List out any four factors affecting working capital.
2. Write a short note on Modigliani and Miller approach.
3. Individual do have a time preference for money - State the reason for such preference.

Section – B
Answer any three questions **(3x8=24)**

4. 'Financial management is more than procurement of funds". What do you think are the responsibilities of a finance manager?
5. A. An executive is about to retire at the age of 60. His employer has offered him two post-retirement options:
   i) ₹20,00,000 lump-sum,
   ii) ₹2,50,000 for 10 years.

   Assuming 10% interest, suggest the best option.

   B. ABC ltd has ₹10 crore bond outstanding. Bank deposits earn 10% per annum. The bonds will be redeemed after 15 years for which purpose ABC Ltd wishes to create a fund. How much amount should be deposited to the sinking fund each year so that ABC ltd would have in the sinking fund ₹10 crore to retire its entire issue of bonds?

6. As a financial analyst of a large electronics company, you are required to determine the weighted average cost of capital of a company using book value weights. The following information is available for your perusal.

Debentures (₹100 per debenture)	₹ 8,00,000
Preference shares (₹ 100 per share)	₹ 2,00,000
Equity shares (₹10 per share)	₹10,00,000

   i) ₹100 per debentures redeemable at par; 10 year maturity, 11% coupon rate, 4% flotation cost, sale price ₹100
   ii) ₹100 preference share redeemable at par; 10 year maturity, 12% dividend rate, 5% flotation cost, sale price ₹100
   iii) Equity share: ₹2 per share flotation costs , sale price ₹22

   In addition, the dividend expected on the equity share at the end of the year is ₹2 per share; the anticipated growth rate in dividends is 7% and firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35 %.

7. A firm has sales of ₹10,00,000, contribution Margin of 30% and fixed cost of ₹1,50,000 and debt of ₹8,00,000 at 10% rate of interest.
   What are Operating, Financial and Combined leverages?
   If the firm wants to double its earnings before Interest and Tax (EBIT), how much of a rise in sales would be needed on a percentage basis?

Section – C

Answer any one question **(1x20=20)**

8. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of five years and have an initial cash outlays of Rs.1, 00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows:

Year	**Project X** ₹	**Project Y** ₹
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

With the help of the above given information you are to calculate:

a) The pay-back period of each project
b) The average rate of return for each project
c) The NPV and Profitability index for each project
d) The IRR for each project

9. The Management of Royal industries has called for a statement showing the working capital to finance, the level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below:

	Cost per unit (₹)
Raw Material	20
Direct Labour	5
Overheads (including depreciation of ₹5 per unit)	15
	40
Profit	10
Selling Price	50

Additional Information:

(a) Minimum desired cash balance is Rs.20,000
(b) Raw material are held in stock , on an average , for two months.

(c) Work –in –progress (50% completion stage for all components) will approximate to half-a-month's production.
(d) Finished goods remain in warehouse , on an average , for a month.
(e) Suppliers of materials extend a month's credit and debtors are provided two month's credit; cash sales are 25% of total sales.
(f) There is a time-lag in payment of wages of a month; and half- a month in the case of overheads.

From the above facts, you are required to prepare a statement showing Working Capital requirement.

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