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

COURSE CODE: 19CM/MC/FM44

B.Com. DEGREE EXAMINATION - APRIL 2023
COMMERCE
FOURTH SEMESTER

COURSE : MAJOR – CORE
COURSE TITLE : FINANCIAL MANAGEMENT
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION-A

Answer all Questions **(10x2=20)**

1) What are the three important decisions of the financial management?
2) In what way, capital structure is important to the business enterprise?
3) What is time value of money?
4) Under what circumstances, the pay back period method is applied in the decision-making process?
5) How does the operating cycle supports the working capital management?

6) Find out the present value of Rs.10,000 to be required after 4 years, if the interest rate is 6%.

7) Calculate the cost of debt, if X Ltd issues 12% debentures of face value Rs.100 each and realizes Rs.95 per debenture. The debentures are redeemable after 10 year at a premium of 10%.

8) Find out the operating leverage, given sales Rs.50,000, variable cost 60% and fixed cost Rs.12,000.

9) From the following balance sheet, compute the working capital:

Liabilities		Assets	
Accounts Payable	80,000	Cash	25,000
Other current liabilities	20,000	Accounts receivables	60,000
Long-term debt	1,00,000	Inventory	65,000
Equity capital (50,000 shares)	3,00,000	Fixed Assets	3,50,000
	5,00,000		5,00,000

10) RR Ltd. is an established Co. having its shares quoted in the major stock exchanges. It has a paid up share capital of Rs. 50 lakhs of Rs. 10 each. Its current market price of a share after dividend at 21% p.a. is Rs 25. Annual growth rate in dividend is expected at 3%. The expected rate of return on its equity capital is 16%. Calculate the value of the shares based on 'Dividend Growth Model'.

SECTION – B

Answer any Five Questions **(5x8=40)**

11) Which is superior - profit maximization or wealth maximization. Why?
12) Explain the factors that affect the capital Structure.

13) Production = 20,000 units, selling price Rs.20 per unit; variable cost Rs.15 p u; fixed cost Rs.40,000; Interest Rs.10,000; Preference dividend Rs. 5,000; no of equity share 10,000; Tax @ 40%. Calculate (1) operating leverage and (2) financial leverage.

14) The Company's capital structure consist of the following:

Source	After tax cost	Book Value (Rs.)	Market Value (Rs.)
Debt	8%	3,00,000	3,00,000
Pref Capital	14%	1,00,000	1,90,000
Retained Earning	17%	2,00,000	-
Equity Capital	17%	3,00,000	6,40,000

Calculate Weighted Average Cost of Capital, using – (a) Book Value as weights, (b) Market Value as weights.

15) A company buys a piece of equipment for Rs.2 lacs on January 1. The expected useful life is 6 years and the salvage value is estimated '0'. The company intends to replace the equipment identically. The average price increases is 8% yearly. For this purpose, the company creates a special fund with annual equal payments at the end of each year during the lifetime. Cost of capital and earnings of the fund is 10% per year. Compute the annual payment into the fund.

16) Calculate the pay back and discounted pay-back period from the details given below – Cost of project Rs. 6,00,000; Life of the project 5 years; Annual cash inflow (CIF) Rs. 2,00,000; Cut-off rate 10%.

17) a) If you invest ₹ 5,000 today at a compound interest of 9% what will be the future value after 75 years?
   b) A finance company advertises that it will pay a lump sum of ₹ 44,650 at the end of 5 years to investors who deposit annually ₹ 6,000 for 5 years. What is the interest rate implicit in this offer?
   c) A 12 payment annuity of ₹ 10,000 will begin 8 years hence. (The first payment occurs at the end of 8 years) What is the present value of this annuity if the discount rate is 14%?
   d) A Debenture whose par value is Rs. 2000 has a coupon rate of 12% and has a maturity period of 3 years. The required rate of return on the bond is 10%. What is the present value of the bond?

SECTION – C

Answer any Two Questions **(2x20=40)**

18) A Ltd. consists of 5,000 Equity shares of Rs. 100 each. It plans to raise Rs. 3,00,000 for the expansion programme and identify four options for raising funds –
   a. Issued Equity shares of Rs 100 each
   b. Issue 1,000 Equity shares of Rs.100 each and 2,000 (8%) Preference shares of Rs 100 each
   c. Borrow of Rs 3, 00,000 at 10% interest p.a.
   d. Issue 1,000 Equity shares of Rs.100 each and Rs. 2,00,000, (10%) Debentures.

This company has EBIT of Rs. 1,50,000 of its expansion. Tax rate is 50%. Suggest the source in which funds should be raised.

19) Two projects M and N which are mutually exclusive are being under consideration. Both of them require an investment of Rs. 1,00,000 each. The net cash inflows are estimated as under –

Year	1	2	3	4	5
Project M (Rs.)	10,000	40,000	30,000	60,000	90,000
Project N (Rs.)	30,000	50,000	80,000	40,000	60,000

The company's targeted rate of return on investments is 12%. You are required to assess the projects on the basis of their present values, using (i) NPV Method and (ii) Profitability Index Method

20) A Co. has prepared its annual budget, relevant details of which are reproduced below –

Sales Rs. 46.80 lacs (25% cash sales and balance on credit)	78,000 units
Raw material cost	60% of sales value
Labour cost	Rs. 6 per unit
Variable overheads	Rs. 1 per unit
FC	Rs. 5 lacs (including Rs. 1,10,000 as deprecation)
Budgeted stock levels – - Raw materials - Work-in-progress - Finished goods	 3 weeks 1 week (DM-100%, DL&OH-50%) 2 weeks
Lag in payment of overhead	2 weeks
Cash in hand required	Rs. 50,000
- Wages are paid bimonthly, ie., by the 3rd week and by the 5th week for the 1st & 2nd weeks and the 3rd & 4th weeks respectively - Debtors are allowed credit for 4 weeks - Creditors allow 4 weeks credit	

Prepare the working capital budget for a year for the company.

21. V Ltd., has the following capital structure

Equity capital at Rs. 10 per share	Rs. 15,00,000
11% preference shares	Rs. 1,00,000
Retained earnings	Rs. 20,00,000
13.5% Debentures	Rs. 10,00,000
15% Term loan	Rs. 12,50,000

The next expected dividend on equity is Rs. 3.6 per share. The dividend is expected to grow at 7%. The market price of the share is Rs. 40.
Preference stock redeemable after 10 years are currently selling at Rs. 75 per share
Debentures, redeemable after 6 years are selling at Rs. 80. Tax rate is 40%.
Calculate weighted average cost of capital based on
a) Book Value proportions b) Market value proportions.

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