

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2019– 2020 and thereafter)

B.COM (A&F). DEGREE EXAMINATION NOVEMBER 2023
ACCOUNTING AND FINANCE
THIRD SEMESTER

COURSE : **MAJOR – CORE**
PAPER : **FINANCIAL MANAGEMENT**
SUBJECT CODE : **19AF/MC/FM34**
TIME : **3 HOURS** **MAX. MARKS: 100**

SECTION – A

ANSWER ALL QUESTIONS: **(10 x 2 = 20)**

1. Define Financial Management.
2. Give the meaning of Operating and Financial leverage.
3. What do you mean by risk analysis in capital budgeting decisions?
4. Define working capital management and enumerate its types.
5. What is lease financing?
6. Calculate the cost of capital when X Ltd issues 12% Debentures of face value Rs.100 each and realizes Rs.95 per debenture. The debentures are redeemable after 10 years at a premium of 10%
7. The following particulars are available: Sales Rs. 1,00,000 Variable Cost Rs. 70,000 Fixed Cost Rs. 20,000 Long term loans @ 10% Rs. 50,000. Compute the combined leverage.
8. A project has an initial investment of Rs.200,000. It will produce cash flows after tax of Rs.50,000 p.a for six years. Compute the pay back period for the project.
9. H Ltd earns Rs.15 per share. The company is capitalised at a rate of 125 and has a return on investment of 18%. According to Walter's formula, what should be the price per share @ 60% div payout ratio?
10. Calculate the future value of Rs.40000 invested now for a period of 4 years at a time preference rate of 10%.

SECTION – B

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

11. Following is the information of Shri Aruna Industries Ltd. for the year 30th June 2021. Their plan is to sell 30,000 units in the year 2021-2022. The expected cost of goods sold is as under you are required to calculate the working capital requirements.

Particulars	Rs
Raw materials	100
Manufacturing expenses	30
Selling, administration and financial expenses	20
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows :

Raw material stage 2 months

Work-in-progress stage 1 month

Finished goods stage 1/2 month

Debtors stage 1 month

If the monthly sales level is 2,500 units, estimate the gross working capital. Expected cash balance is 5% of the gross working capital, and work in progress is 25% complete with respect to manufacturing expenses.

12. The expected annual net operating income of a company (EBIT) is Rs.50000. The company has Rs.200000,10% debentures. The equity capitalization rate(ke) of the company is 12.5%. find the value of firm and overall cost of capital under net income approach.
13. The installed capacity of a factory is 700 units. The actual exploited capacity is 500 units. Selling price per unit Rs. 100 and variable cost is Rs. 60 per unit. Calculate operating leverage when (a) fixed costs are Rs. 5000 (b) fixed costs are Rs. 11,000 (c) fixed costs are Rs. 15,000
14. The following data relates to Yamina Ltd
Earnings per share-Rs.14, Capitalisation Rate-Rs.15%, Rate of Return-20%. Determine the market price per share under Gordon's model if retention is (a) 40%, (b) 60%, (c) 20%.
15. Project K requires an investment of Rs.20 lakh and yields profits after tax and depreciation as follows.

Year	1	2	3	4	5
Profit after Tax (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. You are required to calculate ARR.

16. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days.
Period of Coverage:365 days
Average period of credit allowed by suppliers: 16 days

Particulars	Rs
Average total cost of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total Production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of average stock maintained: Raw materials	3,20,000
Work in progress	3,50,000
Finished goods	2,60,000

17. Mr. Anirudh deposits at the end of each year Rs. 1,000, Rs.2,000, Rs.3,000, Rs.5,000, Rs.10,000 in a Savings bank account for five years. The interest is 5%. Find the future value of his deposits at the end of the fifth year.

SECTION – C

ANSWER ANY TWO QUESTIONS:

(2 x 20 = 40)

18. Following is the information of Ashok Industries Ltd. for the year ending 31st Mar. 2017. You are required to calculate the working capital requirements from the following information:

Particulars	Rs
Raw materials	160
Direct labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

Raw materials are held in stock on an average for 1 month period. Materials are in process on an average for $\frac{1}{2}$ month period. Finished goods are in stock on an average for 1 month period. Credit allowed by suppliers is 1 month period and credit allowed to debtors is 2-month period. Time lag in payment of wages is $1\frac{1}{2}$ weeks. Time lag in payment of overhead expenses is 1 month. $\frac{1}{4}$ th of the sales are made on cash basis. Cash in hand and at the bank is anticipated to be Rs. 50,000; and anticipated level of production amounts to 1,04,000 units for a year of 52 weeks. You may assume that production is carried on evenly throughout the year and a time period of four weeks is equivalent to a month.

19. Assuming no taxes and given the earnings before interest and taxes(EBIT), interest (I) at 10% and equity capitalization rate(K_e) below, calculate the total market value of each firm under net income approach:

Firms	EBIT(RS)	I (RS)	K_e
Z	200000	20000	12.0%
Y	300000	60000	16.0%
Z	500000	200000	15.0%
W	600000	240000	18.0%

Also determine the weighted average cost of capital (WACC) for each firm.

20. Project M has an initial investment of Rs.3 lakhs. Its cash flows for five years are Rs.90,000, Rs.1,08,000, Rs.90,000, Rs.79,200 and Rs.72,000. Assuming a discount rate of 10% p.a., depreciation 20%, compute discounted payback period, Net present value, profitability index and average rate of return.
21. **A.** Arun borrowed a five-year vehicle loan of Rs.60,000 at 9% from his employer. He is required to repay as five equal instalments. How much he has to pay every year. Set up Amortization table.
- B.** Ajay & Co. issued 10% debentures of Rs.5,00,000. It is to be redeemed after five years. How much should the company invest in a sinking fund earning 12% in order to be able to repay debentures?
