STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2022-2023)

B.COM. DEGREE EXAMINATION APRIL 2024
BANKING, FINANCE AND ENTREPRENEURSHIP
FOURTH SEMESTER

COURSE	**:**	**MAJOR – CORE**
PAPER	**:**	**FINANCIAL MANAGEMENT**
SUBJECT CODE	**:**	**22BF/MC/FM44**
TIME	**:**	**3 HOURS**

MAX. MARKS: 100

SECTION A

ANSWER ALL QUESTIONS **(10 X 2 = 20)**

1. Define Financial Management.
2. List down the various theories of capital structure.
3. What is trading on equity?
4. Mention few advantages of working capital.
5. What is capital budgeting?

6. K Ltd. invested Rs.3,00,000 at 12% p.a for 6 years .What will be the value of investment after 2 years if interest is compounded (a) annually and (b) semi-annually?

7. Find out the degree of operating leverage from the following data:

EBIT (2020)	Rs.40,000	Sales (2020)	20,000 units
EBIT (2021)	Rs.50,000	Sales (2021)	28,000 units

8. A company has 10% perpetual debt of Rs.1,00,000. The tax rate is 35% Determine the cost of capital (before tax as well as after tax assuming the debt is issued at (i) at par
(ii) 10 percent discount and (iii) 10 percent premium.

9. From the following information from Prabhu Ltd. Calculate Operating cycle and average working capital requirement. If annual cash operating expenses are Rs.150 Lakh.
Stock Holding: Raw materials : 2 months.
W.I.P : 15 days
Finished Goods : 1 month.
Average debt collection period: 2 months
Average payment period: 45 days

10. A project costs Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its pay-back period.

SECTION B

ANSWER ANY FIVE QUESTIONS **(5 X 8 = 40)**

11. Explain various stages involved in capital budgeting process.
12. " The analysis of working capital helps in the effectiveness of business management" Discuss.

13. Calculate the future value of the following series of payments at the end of 4 years
 Rate of interest is 9%
 P1 = Rs.1,500 at the end of first year
 P2=Rs.3,000 at the end of second year
 P3=Rs.4,500 at the end of third year
 P4=Rs.6000 at the end of fourth year

14. Calculate operating leverage, financial leverage and the combined leverage for the following firms and interpret the results:

	P	Q	R
Output (units)	3,00,000	75,000	5,00,000
Fixed cost (Rs.)	3,50,000	7,00,000	75,000
Variable cost per unit (Rs.)	1	7.50	0.10
Interest expenses (Rs.)	25,000	40,000	-
Unit selling price (Rs.)	3	25	0.50

15. Calculate the operating cycle of a company which gives the following details relating to its operations:

	Rs.
Raw materials consumption per annum	8,42,000
Annual cost of production	14,25,000
Annual cost of sales	15,30,000
Annual sales	19,50,000
Average value of current assets held:	
Raw materials	1,24,000
Work in Progress	72,000
Finished Goods	1,22,000
Debtors	2,60,000

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

16. Each of the following projects requires a cash outlay of Rs.20,000. You are required to suggest which project should be accepted if the standard pay back period is 5 years:

Year	Cash inflow		
	Project X	Project Y	Project Z
1	2500	4000	1000
2	2500	3000	2000
3	2500	2000	3000
4	2500	1000	4000
5	2500	-	-

17.The shares of Textile company are selling at Rs.20 Per share. The firm had paid Rs.2 per share dividend last year. The estimated growth of the company is approximately 5% per year.
 (i) Determine cost of equity capital of the company.
 (ii) Determine the estimated market price of the equity share if the anticipated growth of the firm (a) rises to 8%, and (b) falls to 3%

SECTION C

ANSWER ANY TWO QUESTIONS **(2 X 20 = 40)**

18. X Ltd is considering investing in a project requiring a capital outlay of Rs.8,00,000. Forecast for annual net incomes after depreciation but before tax are as follows:

Year	1	2	3	4	5
Profits (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.
You are required to evaluate the project according to each of the methods:
a) Payback period
b) Rate of return on original investment method
c) NPV taking cost of capital as 10%
d) P.I. method

19. Guru Ltd. Is considering two plans to finance a project costing Rs. 50 Lakh.
The details are

	Plan I (Rs. In Lakh)	Plan II (Rs. In Lakh)
Equity Share Capital (Rs. 100 per share)	20	25
12% Debentures	30	25

Sales for the first three years of operations are projected at Rs. 120, 150 and 180 lakhs respectively. EBIT is expected to be 15% of sales. Corporate taxation is 35%. Calculate the EPS in each of the plans for three years.

20. Prepare a cash budget for the months of May, June and July 2021 on the basis of the following information:
(a) Income & Expenditure forecasts:

Month (2021)	Credit Sales Rs.	Credit Purchases Rs.	Wages	Manufacturing Expenses Rs.	Office Expenses Rs.	Selling Expenses Rs.
March	60,000	36,000	9,000	4,000	2,000	4,000
April	62,000	38,000	8,000	3,000	1,500	5,000
May	64,000	33,000	10,000	4,500	2,500	4,500
June	58,000	35,000	8,500	3,500	2,000	3,500
July	56,000	39,000	9,500	4,000	1,000	4,500
August	60,000	34,000	8,000	3,000	1,500	4,000

(b) Cash balance on 1st May, 2021 Rs.8,000
(c) Plant costing Rs.16,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.
(d) Advance tax of Rs.8,000 each is payable in March and June.
(e) Period of credit allowed (i) by suppliers -2 months and (ii) to customers – 1 month.
(f) Lag in payment of manufacturing expenses – 1/2 month
(g) Lag in payment of office and selling expenses – 1 month.

21. From the following capital structure of a company, compute the overall cost of capital using (i) Book value weights and (ii) Market value weights

	Book Value Rs.	Market Value Rs.
Equity share capital (Rs.10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:

Equity share capital :14%
Retained earnings :13%
Preference share capital :10%
Debentures : 5%

****