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

B.COM. DEGREE EXAMINATION - APRIL 2024
COMMERCE
FOURTH SEMESTER

COURSE	**: MAJOR – CORE**	
COURSE TITLE	**: FINANCIAL MANAGEMENT**	
SUBJECT CODE	**: 19CM/MC/FM44**	
TIME	**: 3 HOURS**	**MAX. MARKS: 100**

SECTION-A

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

1. Define Cost of Capital.
2. Mention any four short term sources of finance.
3. What is dividend decision?
4. State the meaning of Financial Break Even Point.
5. What is NPV?
6. XY Company has 50,000 shares of Rs. 10each. The net income before tax is 10,00,000 and tax rate @50%. Ascertain the EPS.
7. Find out operating leverage. Interest Rs. 5,000; sales Rs. 50,000; Variable cost Rs.25,000; Fixed cost Rs. 15,000.
8. The company has an investment of 25,00,000 and yield an net income of 7,50,000. Compute the rate of return on investment.
9. A Company issues 12% redeemable shares having face value of Rs. 100 at a discount of 10% to be redeemed after 10 years at par. Calculate the cost of preference shares.
10. X deposited Rs. 1,50,000 in a fixed deposit account at 8%p.a. compounded quarterly for three years. How much amount he will get on maturity?

SECTION – B

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

11. Briefly describe the functions of financial management.
12. Explain the factors that influence the dividend policy of the firm.
13. Alpha Company wants to invest in a project costing Rs. 5,00,000. The project has an useful life of 5 years with no salvage value. The Company's tax rate is 55%. The estimated cash flows before depreciation and tax (CFBT) from the proposed investment proposals are as follows:

Year	1	2	3	4	5
CFBT (Rs.)	1,00,000	1,10,000	1,40,000	1,50,000	2,50,000

Compute IRR.

14. A firm issues debentures of Rs. 3,00,000 and realizes Rs. 2,94,000 after allowing 2% commission to brokers. The debentures carry an interest of 11%. the debentures are due for maturity at the end of the 10^{th} year. You are required to calculate the effective cost of debt before and after tax of 50%.

15. M Ltd has provided the following information:

Sales	Rs. 15,00,000
Cost of sales	Rs. 9,50,000
Raw material consumed	Rs. 4,00,000
Cost of production	Rs. 8,50,000

Value of average stock maintained

Raw material	Rs. 30,000
Work in progress	Rs. 32,000
Finished goods	Rs. 25,000

The average period of credit allowed by suppliers is 15 days and all sales are made on cash basis. You are required to compute operating cycle in days.

16. Nathan's father wants to give Rs. 25,000 on her 18^{th} birthday. Today is her 8^{th} birthday. He wants to know two things:
A) How much annual payment is to be made by him into a fund?
B) How much is to be invested in the fund in lump sum? If the fund earns an interest of 8% which is compounded annually. (Compound value @8% for 10 years is 14.4866, at the end of 10^{th} year is 2.1589)

17. A new project requires an investment of Rs. 6,00,000and two alternative methods of financing are under consideration:
A) Issue of equity shares of Rs. 10 each.
B) Issue of equity shares of Rs. 10 each for Rs. 4,00,000 and issue of 15% debentures for Rs. 2,00,000. Find out the indifference level of EBIT assuming a tax rate of 35%.

SECTION – C

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

18. Margham Ltd needs Rs. 10,00,000 for installation of a new factory which would yield and annual EBIT of Rs. 1,80,000. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising debt of Rs. 1,50,000; Rs. 4,50,000 or Rs. 7,50,000. The current market price per share is Rs. 25 which is expected to drop to Rs. 20 per share if the market borrowings were to exceed Rs. 6,00,000. The cost of borrowings are indicated as under:

Upto Rs. 2,00,000	8% per annum
Between Rs. 2,00,001 and Rs. 5,00,000	10% per annum
Between Rs. 5,00,001 and Rs. 7,50,000	12% per annum

Assuming the tax rate to be 40%, work out the EPS and the scheme which would meet the objective of the management.

19. P Ltd has the following capital structure:

4, 000 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 shares 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. Compute the cost of equity and the WACC.
b. Assuming that the company can raise Rs. 3,00,000 12% debentures, find out the new WACC if dividend rate is increased from 10% to 12%; growth rate is reduced from 10% to 8% and market price is reduced to Rs. 98.

20. Estimate the net working capital required for a project after allowing 10 percent contingencies from the following information:

Particulars	Amount Per unit
Estimated cost of production	
Raw material	Rs. 80
Direct Labour	Rs. 30
Overheads (exclusive of depreciation, Rs. 10 per unit)	Rs. 60

Additional information:
Selling price Rs. 200 per unit
Level of activity 1,04,000 units of production per annum
Raw materials in stock, average 4 weeks
Work in progress in stock, average 2 weeks
Finished goods in stock, average 4 weeks
Credit allowed by suppliers, average 4 weeks
Credit allowed to customers, average 8 weeks
Lag in payment of wages average 1.5 weeks
Cash at bank is expected to be Rs. 25,000
You may assume that the production is carried on evenly throughout the year and wages and overheads accrue similarly. All sales are on credit basis only.

21. A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. the facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax from the investment proposal are as follows:

Year	1	2	3	4	5
CFBT (Rs.)	10,000	10,692	12,769	13,462	20,385

Compute the following:
I) Pay back period
II) Average Rate of Return
III) Net Present value at 10% discount rate
IV) Profitability Index at 10% discount rate

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