STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2011 – 12)

SUBJECT CODE: 11CM/PC/FM24

M.Com. DEGREE EXAMINATION APRIL 2012
COMMERCE
SECOND SEMESTER

COURSE	**:**	**CORE**
PAPER	**:**	**FINANACIAL MANAGEMENT**
TIME	**:**	**3 HOURS** **MAX. MARKS: 100**

SECTION – A

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

1. State the meaning of 'Annuity'.
2. What is meant by 'Capital Rationing'?
3. What do you mean by 'optimum capital structure'?
4. Explain combined leverage.
5. Define cost of capital.
6. Alex Industries Ltd., offers 14% Interest of fixed deposits. What is the effective rate of interest if compounding is done half yearly?
7. A project costs Rs. 20 lakhs and yields annually a profit of Rs. 3 lakh after depreciation at 12.5% but before tax at 50%. Calculate pay-back period.
8. Malaiya Ltd., issued 60,000 15% irredeemable preference shares of Rs. 100 each. The issue expenses were Rs. 60,000. Determine the cost of preference capital if shares are issued at a premium of 10%.
9. Dewey Ltd., has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. Market value of equity is Rs. 18,00,000. Calculate equity capitalization rate under NOI approach.
10. Ascertain financial leverage from the information given below:
    Networth: Rs. 20,00,000; Debt equity ratio 3:1, interest rate 10%
    EBIT Rs. 18,00,000.

SECTION – B

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

11. How is the goal of wealth maximisation a better operative criterion than profit maximisation? Explain in detail.
12. What is Capital Budgeting? What are the various factors influencing Capital Budgeting decision?
13. Explain the concept of cost of capital and its significance while taking financial decision.

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14. What are the factors to be kept in mind while determining the capital structure of a firm?

15. An investment of Rs. 1,00,000 (having scrap value of Rs. 5,000) yields the following returns:

Year	1	2	3	4	5
CFAT (Rs.)	40,000	40,000	30,000	30,000	25,000

The cost of capital is 10%. Is the investment desireable? Discuss it according to NPV method assuming the P.V. factor for 1st, 2nd, 3rd, 4th and 5th year – 0.909, 0.826, 0.751, 0.683 and 0.620 respectively.

16. Ajit Ltd., has a stable income and stable dividend policy. The average annual dividend payout is Rs. 25 per share (face value Rs. 100). You are required to ascertain:
a) Cost of equity capital.
b) Cost of equity capital if the market price of the share is Rs. 150.
c) Expected market price in year 2 if cost of equity is expected to rise to 20%.
d) Dividend pay out in year 2 if the company were to have an expected market price of Rs. 160 per share, at the existing cost of equity.

17. Ferry Ltd. has the following capital structure:

	Rs. in lakh
Equity shares : 2 lakh Nos @ Rs. 10 each	20
Reserve & Surpluses	5
11% Debentures each of face value Rs. 100	15
	40

The company needs Rs. 10 lakh to execute a new project which will raise its operating profit (EBIT) from the current level of Rs. 6 lakh to 8 lakh. It is considering the following options:

I Issue of equity shares at a premium of Rs. 10 each for the entire amount.
II Issue of 13% Debentures for Rs. 10 lakh required additionally.
III Issue of equity shares of Rs. 6 lakh at a premium of Rs. 30 per share and issue of 13% debenture for the balance amount.

The company's tax rate is 50%. Evaluate the three options and advise the company.

18. The following projections have been given in respect of O Bright Co.:

Output	3,00,000 units
Fixed cost (Rs.)	3,50,000
Unit variable cost (Rs.)	1
Interest expenses (Rs.)	25,000
Unit selling price (Rs.)	3

On the basis of above information, calculate
(a) operating leverage (b) financial leverage (c) combined leverage.

SECTION – C

ANSWER ANY TWO QUESTIONS: **(2 x 20 = 40)**

19. State briefly the significance of financial management and explain the changing scenario of financial management in India.

20. Explain in detail the net income approach and net operating income approach of capital structure.

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

Year	1	2	3	4	5
Profit (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%.

You are required to evaluate the project according to each of the following methods.

(a) Pay back method (b) Rate of Return on Original Investment method
(c) Rate of return on average investment method (d) NPV method taking cost of capital as 10% (e) PI method.

(Refer Question No. 15 for pvf values)

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

Particulars	**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% and Debentures 5%.