STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 86
(For candidates admitted from the academic year 2023 – 2024 and thereafter)

B.COM DEGREE EXAMINATION, APRIL 2026
COMMERCE
FOURTH SEMESTER

COURSE : MAJOR CORE
PAPER : FINANCIAL MANAGEMENT
SUBJECT CODE : 23CM/MC/FM44
TIME : 3 HOURS MAX. MARKS: 100

Q. No.	SECTION A Answer ALL the questions (5 x 2 = 10)	CO	KL
1	What is financial management?	1	K1
2	Write a note on indifference point.	1	K1
3	What is meant by capital budgeting?	1	K1
4	What is discounting technique?	1	K1
5	State the meaning of dividend.	1	K1
Q. No.	**SECTION B** **Answer ALL the questions (5 x 2 = 10)**	**CO**	**KL**
6	Calculate the future value of ₹5,000 invested for 2 years at 10% p.a. compounded annually.	2	K2
7	Calculate the indifference point of EBIT between two financing plans which requires an investment of Rs.4,00,000. Plan A – only equity Plan B – ₹2,00,000 debt at 10% and balance in equity shares of Rs.10 each. Existing capital structure. Plan A – equity shares 20,000 Plan B – equity shares 10,000 Tax rate - 30%.	2	K2
8	Calculate WACC based on book value weights : Equity = ₹3,00,000 (Ke = 12%) Debt = ₹2,00,000 (Kd = 8%)	2	K2
9	Calculate Profitability Index: Present value of cash inflows ₹1,20,000 Initial investment ₹1,00,000.	2	K2
10	Compute Operating Cycle: Raw material holding period = 30 days; WIP = 10 days; Finished goods = 20 days; Debtors = 30 days; Creditors = 20 days.	2	K2
Q. No.	**SECTION C** **Answer any TWO questions (2 x 10 = 20)**	**CO**	**KL**
11	What are the objectives of Financial Management? Explain how wealth maximisation is superior to profit maximisation.	3	K3
12	Arun's father wishes to give him Rs. 1,00,000 on his 20th birthday. Today is his 10^{th} birthday. He wants to know about two things. a) How much annual payment is to be made by him into a fund? b) Alternatively, how much is to be invested in the fund in lumpsum? The fund earns a return of 7% which is compounded annually.	3	K3

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<tr><td>13</td><td>A firm has sales of Rs. 15,00,000, Variable cost of Rs. 9,00,000, fixed cost of Rs. 3,00,000 and debt of Rs. 8,00,000 at 8%. Calculate its operating, financial and combined leverage.
If the firm decides to double its EBIT, how much of a rise in sales would be needed on the percentage basis?</td><td>3</td><td>K3</td></tr>
<tr><td></td><td>SECTION D</td><td></td><td></td></tr>
<tr><td>Q. No.</td><td>Answer any TWO questions (2 x 10 = 20)</td><td>CO</td><td>KL</td></tr>
<tr><td>14</td><td>A company has the following capital structure:
<table>
<tr><th>Source</th><th>Amount</th><th>Cost</th></tr>
<tr><td>Equity</td><td>₹5,00,000</td><td>15%</td></tr>
<tr><td>Preference</td><td>₹2,00,000</td><td>12%</td></tr>
<tr><td>Debt</td><td>₹3,00,000</td><td>10%</td></tr>
</table>
Tax rate = 30%
1. Calculate after-tax cost of debt.
2. Compute Weighted Average Cost of Capital based on book value weights.</td><td>4</td><td>K4</td></tr>
<tr><td>15</td><td>A project requires an initial investment of ₹3,00,000.
Expected cash inflows after tax (CFAT).

Year 1 – ₹80,000
Year 2 – ₹90,000
Year 3 – ₹1,00,000
Year 4 – ₹1,20,000
1. Calculate Payback Period.
2. Calculate ARR if scrap value is ₹20,000 and project life is 4 years.</td><td>4</td><td>K4</td></tr>
<tr><td>16</td><td>Briefly explain the factors influencing dividend policy.</td><td>4</td><td>K4</td></tr>
<tr><td></td><td>SECTION E</td><td></td><td></td></tr>
<tr><td>Q. No.</td><td>Answer any TWO questions (2 x 20 = 40)</td><td>CO</td><td>KL</td></tr>
<tr><td>17</td><td>Cost sheet of a company provides the following data:
Particulars Cost per unit (Rs.)
Raw materials 50
Direct labour 20
Overheads
(including depreciation of Rs.10) 40

Total cost 110
Profit 20

Selling price 130

Additional Information:
a. Average raw materials in stock is for one month.
b. . Average materials in progress is for half –a-month.
c. Credit allowed by suppliers – one month.
d. Credit allowed to debtors – one month.
e. Average time, lag in payment of wages – 10 days,
f. Average time lag in payment of overheads – 30 days.
g. 25% of the sales are on cash basis.
h. Cash balance expected to be Rs.1,00,000.
i. Finished goods lie in the warehouse for one month.</td><td>5</td><td>K5</td></tr>
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<table>
<tr><td></td><td>You are required to prepare a statement showing the working capital needed to finance a level of activity of Rs.54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly. Assume 360 days per year.</td><td></td><td></td></tr>
<tr><td>18</td><td>Dubin Ltd. has equity share capital of Rs. 12,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 6,00,000 for expansion-cum-modernization scheme. The company plans the following financing alternatives:
Plan A – By issuing equity shares only.
Plan B – Rs. 2,00,000 by issuing equity shares and Rs. 4,00,000 through debentures @ 10% p.a.
Plan C – Rs. 2,00,000 by issuing equity shares and Rs. 4,00,000 by issuing 9% Preference shares.
Plan D – By raising term loan only at 10% p.a.
You are required to suggest the best alternative giving your comment assuming that the estimated EBIT after expansion is Rs. 2,25,000 and corporate rate of tax is 40%.</td><td>5</td><td>K5</td></tr>
<tr><td>19</td><td>Your company can make either of the following two investments at the beginning of 2001. The following particulars are available in this respect:
<table>
<tr><th>Particulars</th><th>Project I</th><th>Project II</th></tr>
<tr><td>Estimated cost (to be incurred initially) (Rs.)</td><td>2,00,000</td><td>2,80,000</td></tr>
<tr><td>Estimated life (years)</td><td>4</td><td>5</td></tr>
<tr><td>Scrap value at the end of economic life</td><td>Nil</td><td>Nil</td></tr>
</table>
Estimated net cash flow after tax (CFAT)
<table>
<tr><th>Year</th><th>Project I</th><th>Project II</th></tr>
<tr><td>End of 2001</td><td>55,000</td><td>56,000</td></tr>
<tr><td>End of 2002</td><td>70,000</td><td>90,000</td></tr>
<tr><td>End of 2003</td><td>85,000</td><td>90,000</td></tr>
<tr><td>End of 2004</td><td>75,000</td><td>90,000</td></tr>
<tr><td>End of 2005</td><td>—</td><td>90,000</td></tr>
</table>
It is estimated that each of the alternative projects will require an additional working capital of Rs. 20,000 which will be received back in full after the expiry of each project life. In estimating net cash flow, depreciation has been provided under straight line method. Cost of finance to your company may be taken at 10% p.a. Evaluate the investment proposals using net present value.</td><td>5</td><td>K5</td></tr>
<tr><td>20</td><td>Sita Ltd. issued 50,000 10% debentures of Rs. 100 each, redeemable in 10 years' time at 10% premium. The cost of issue was 2.5%. The company's income tax rate is 35%. Determine the cost of debt before and after tax if they were issued
(a) at par
(b) at a premium of 5%.
(c) at a discount of 10%.</td><td>5</td><td>K5</td></tr>
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