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

B.COM DEGREE EXAMINATION, APRIL 2026
CORPORATE SECRETARYSHIP
FOURTH SEMESTER

COURSE : MAJOR CORE
PAPER : INTRODUCTION TO FINANCIAL MANAGEMENT
SUBJECT CODE : 23CO/MC/IF44
TIME : 3 HOURS MAX. MARKS: 100

Q. No.	**SECTION A** **Answer all the questions. (5 x 2 = 10 marks)**	CO	KL
1	The amount of contribution is Rs.1, 60,000 and the amount of EBT is Rs.40,000. Calculate combined leverage.	1	1
2	Define financial management.	1	1
3	What is meant by cost of capital?	1	1
4	Net profit after tax is 20,000 Average Investment is 1,00,000 Calculate ARR accept the project if ARR is 25%.	1	1
5	The following information is available in respect of X Ltd. Stock holding: Raw materials 1 month, Work-in-progress: 15 days, Finished goods: 2 months. Debtors collection period: 1 month, time lag in payment of bills: 30 days. Calculate Operating Cycle.	1	1
Q. No.	**SECTION B** **Answer any four questions. (4 x 5 = 20 marks)**	**CO**	**KL**
6	Your company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Re.1 per share and the investors expects a growth rate of 5% per year. Compute the company's cost of equity capital.	2	2
7	Explain how the wealth maximization objective is superior to the profit maximization objective.	2	2
8	Find out the degree of operating leverage from the following data: EBIT(2024) – Rs.40,000 | Sales(2024)–20,000units EBIT(2025) – Rs.50,000 | Sales(2025)-28,000units	2	2
9	The expected cash inflows are 3000, 4500, 6000, 8000 and 10000 for five years. Discount rate 16% Find the present value of cash inflows using PV table.	2	2
10	An investment of Rs. 50,000 yields the following cash flows of 18000,16000,14000,12000 and 10000 in five years. The cost of capital is 10% Find the Net Present Value of this investment and suggest whether this project is accepted or not.	2	2
11	Aravind invested Rs. 2,00,000 at 12% p.a. for 2 years. What will be the value of investment after two years if interest is compounded (a) annually (b) semi – annually (c) quarterly Which is more beneficial to Aravind?	2	2

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<table>
<tr><th>Q. No.</th><th>SECTION C
Answer the following questions. (4 x 10 = 40 marks)</th><th>CO</th><th>KL</th></tr>
<tr><td>12</td><td>a) Mr. Balu has borrowed a loan of Rs.5,00,000 to construct his house which is repayable in 12 equal annual installments the first being paid at the end of first year. The rate of interest chargeable on this loan is @4% p.a. compounded. How much of equal annual installments payable to amortise the said loan. Prepare amortization table.
(OR)
b) The cost of project is Rs.120000. It is expected to generate cash inflows of Rs.30000 Rs.40000 Rs.60000 and Rs.40000 through its four year life period .Calculate the IRR of the project.</td><td>3</td><td>3</td></tr>
<tr><td>13</td><td>a) Calculate the operating cycle of a company which gives the following details:
<table>
<tr><td>Raw material consumption per annum</td><td>8,42,000</td></tr>
<tr><td>Annual cost of production</td><td>14,25,000</td></tr>
<tr><td>Annual cost of sales</td><td>15,30,000</td></tr>
<tr><td>Annual sales</td><td>19,50,000</td></tr>
<tr><td>Average :
Raw material</td><td>1,24,000</td></tr>
<tr><td>Work – in progress</td><td>72,000</td></tr>
<tr><td>Finished goods</td><td>1,22,000</td></tr>
<tr><td>Debtors</td><td>2,60,000</td></tr>
</table>
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. Also calculate the number of operating cycles in a year.
(OR)
b) The capital structure of Willim corporation Ltd .consists of an ordinary share capital of Rs.800000 (shares of Rs.100 each) and Rs.800000 of 12% debentures. The unit sales increased from 80000 units to 100000 units, the selling price is Rs.15 per unit, variable cost amounts to Rs.9 per unit and fixed expenses amount to Rs.160000 .The income tax rate is assumed to be 50%.

You required to calculate the following:
a. The percentage increase in EPS
b. Determine operating leverage at 80000 units and 100000 units
c. Determine financial leverage at 80000 units and 100000 units</td><td>3</td><td>3</td></tr>
<tr><td>14</td><td>a) ABC Ltd intends to raise Rs.20 lakh by issue of new equity shares. The relevant particulars are given below:
<table>
<tr><td></td><td>Rs.</td></tr>
<tr><td>No. of existing equity shares</td><td>5 lakhs</td></tr>
<tr><td>Profit after tax</td><td>25 lakhs</td></tr>
<tr><td>Market value of equity shares</td><td>200 lakhs</td></tr>
</table>
You are required to calculate (i) the cost of existing equity capital and (ii) the cost of new equity capital if the shares are issued at a price of Rs.34 per share and the issue expenses are Rs.4 per share.</td><td>4</td><td>4</td></tr>
</table>

<table>
<tr><td></td><td>(OR)
b) From the following prepare income statement of XYZ Ltd.
Financial Leverage - 3:1
Interest - Rs. 30,000
Operating Leverage - 4:1
Variable cost as a percentage of sales – 70%
Income Tax - 50%</td><td></td><td></td></tr>
<tr><td>15</td><td>a) (i) An executive is about to retire. His employer has offered him two post- retirement options: (i) Rs.20000 lump sum (ii) Annuity of Rs.2500 for 10 years. Assuming 6% interest, Which is better option?
(ii) Find out the compound interest on Rs.5000 invested for 5 years @ 8% interest compounded quarterly?
(iii) Find out the present value of Rs.3000 to be received after 7 years at 15% rate of interest?
(iv) The expected cash inflows are 3000, 4500, 6000, 8000, 10000 at 16% interest. Ascertain the present value of cash flows.
(OR)
b) From the following data, calculate the Payback period under simple cash flow approach as well as discounted cash flow approach:
Project cost Rs. 5,00,000
Cash flows for 5 years (project life) are: Rs. 100000: Rs. 140000: Rs.200000: Rs. 160000: and Rs.120000
Appropriate discount rate for the project is 10%</td><td>4</td><td>4</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 15 = 30 marks)</td><td>CO</td><td>KL</td></tr>
<tr><td>16</td><td>Prepare an estimate of working capital requirement for XYZ Ltd.
Estimated cost per unit of production Rs.110 includes raw material Rs.50, Direct Labour Rs.20 and overheads
(including depreciation of Rs.10) Rs.40. Profit Rs.20
Selling price is Rs.130 per unit.
Level of activity per annum 54,000 units. Production is carried out evenly throughout the year and wages and overheads accrue similarly.

<table>
<tr><td>Raw material in stock</td><td>1 month</td></tr>
<tr><td>Work -in progress</td><td>Half a month</td></tr>
<tr><td>Finished goods in stock</td><td>1 month</td></tr>
<tr><td>Credit allowed by suppliers</td><td>1 month</td></tr>
<tr><td>Credit allowed to debtors</td><td>1 month</td></tr>
<tr><td>Lag in payment of wages</td><td>10 days</td></tr>
<tr><td>Lag in payment of overheads</td><td>30 days</td></tr>
<tr><td>25% sales are on cash basis</td><td></td></tr>
<tr><td>Cash balance</td><td>1,00,000</td></tr>
<tr><td>Assume 360 days in a year</td><td></td></tr>
</table></td><td>5</td><td>5</td></tr>
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<tr>
<td>17</td>
<td>The following is the capital structure of X Ltd as on 31/03/2006
<table>
<tr><td>12% Debentures of Rs.100 each</td><td>6,00,000</td></tr>
<tr><td>10% Preference shares of Rs.100 each</td><td>4,00,000</td></tr>
<tr><td>Equity Shares 10,000 shares of Rs.100 each</td><td>10,00,000</td></tr>
<tr><td></td><td>20,00,000</td></tr>
</table>
The market price of the company's share is Rs.110 and it is expected that a dividend of Rs.10 per share would be declared for the year 2005-06. The dividend growth rate is 6%
(i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.
(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs.10 lakh bearing 14% interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs.10 to Rs.12 per share. However the market price of equity share is expected to decline from Rs.110 to Rs.105 per share.</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>18</td>
<td>A project is in the consideration of a firm .The initial outlay of the project is Rs.100000 and have a life of five years .The company pays tax rate at 50% rate and the maximum required rate of the company has been given as 10%.The straight line method of depreciation will be charged on the projects. The project is expected to generate a profit before depreciation and tax as follows :
<table>
<tr><td>Year</td><td>Project X</td></tr>
<tr><td>1</td><td>Rs.60,000</td></tr>
<tr><td>2</td><td>Rs.30,000</td></tr>
<tr><td>3</td><td>Rs.20,000</td></tr>
<tr><td>4</td><td>Rs.50,000</td></tr>
<tr><td>5</td><td>Rs.50,000</td></tr>
</table>
With the help of above give information your are required to calculate :
(a) Pay- back period
(b) Average rate of return
(c) NPV and profitability index
(d) IRR</td>
<td>5</td>
<td>5</td>
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