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

**SUBJECT CODE: 11CM/PC/FM24**

**M.Com. DEGREE EXAMINATION APRIL 2013**
**COMMERCE**
**SECOND SEMESTER**

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

**SECTION – A**

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

1. List out any two functions of Financial Management.

2. What is capital rationing?

3. Mr. Sairam Deposits Rs .10,000 for 3 years at 10%. What is the compound value of his deposit?

4. A project Cost Rs. 5,00,000 and yields annually profit of Rs. 80,000 after Depreciation at 12% per annum but before tax at 50% . Calculate payback period.

5. Define Capital Structure.

6. AMSA industries ltd issues 5,000 12% debentures of Rs. 100 each at par. The tax rate is 40%. Calculate before Tax Cost of Debt.

7. Define leverages.

8. Sales 2,50,000,
   Marginal cost 1, 00,000
   Fixed Cost 50,000
   Compute the Contribution and Profit**.**

9. From the following information compute 1. Capitalization 2. Capital Structure

| **Particulars** | **Amount** | **Particulars** | **Amount** |
|---|---|---|---|
| Equity share capital 22,000 equity shares of 100 each | 22,00,000 | Land &building | 15,00,000 |
| Preference share capital 13,000 shares of 100 each | 13,00,000 | Plant and Machinery | 12,00,000 |
| Debentures 5,000 debentures of 100 each | 5,00,000 | Furniture and fittings | 4,00,000 |
| Capital surplus | 1,00,000 | Current asset | 14,00,000 |
| Current liabilities | 4,00,000 | | |
| | 45,00,000 | | 45,00,000 |

10. What is Point of indifference?

## SECTION – B

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

11. Nega Ltd. has currently an equity capital structure consisting of 20,000 equity shares of Rs. 100 each. Now it's planning to raise another Rs. 30,00,000 to finance a major expansion programme and is considering three alternative methods of financing:
    a. To issue 30,000 equity shares of Rs. 100 each.
    b. To issue 30,000 12% debenture of Rs. 100 each.
    c. To issue 30,000, 8% preference shares of Rs. 100 each.
    Company expects its earnings before interest & taxes as Rs. 10, 00,000. Assume that the corporate taxes shall be at 40%.
    Determine EPS in each alternative and comment which alternative is the best and why?

12. Sasmitha Company has 12 percent Debt of Rs. 1, 00,000. The Tax rate is 40 percent. Determine the cost of capital (before tax as well as after tax) assuming the debt is issued at (i) par, (ii) 10 percent Discount and (iii) 10 per cent premium.

13. a) ABC Ltd. has borrow Rs. 2,00,000 to be repaid in a equal instalments at the end of the next 3 years. The interest is at 12 per cent. Prepare a loan amortisation schedule.
    b) An investor is 50 years of age today. He will retire at the age of 60. In order to receive the 2,00,000 annually for 10 years after retirement, how amount should be have at the time of retirement? Assume the required rate of retire is 10 per cent.
    c) ABC Ltd. has Rs. 10 crore bonds outstanding. Bank deposit earn 10 per cent per annum. The bonds will be redeemed after 15 years for which purpose ABC Ltd. wishes to create a sinking fund. How much amount should be deposited to the sinking fund each year so that ABC Ltd would have in the sinking fund Rs. 10 crore to retire its entire issue of bonds?

14. (i) Find the Operating leverage from the following data:

| | |
|---|---|
| Sales | Rs. 50,000 |
| Variable Cost | 60 % |
| Fixed costs | 12,000 |

(ii) Find the Financial leverage from the following data:

| | |
|---|---|
| Net worth | 25,00,000 |
| Debt/Equity | 3/1 |
| Interest rate | 12% |
| Operating profit | 20,00,000 |

15. Explain the importance of time value of money?

16. Explain the factors influencing Capital structure.

17. Define Cost of Capital. What is the importance of cost of capital?

18. Write a brief note on (a) Break even analysis (b) Combined leverage

## SECTION – C

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

19. Explain the superiority of the objective of wealth maximization over profit maximization.

20. Explain the different types of Investment Decision?

21. Avon Electricals Ltd. wishes to determine the weighted average cost of capital for evaluating capital budgeting projects. You have been supplied with the following information to calculate the value of $K_0$ for the company.

Balance Sheet as on March 31

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Current liabilities | 9,00,000 | Sundry assets | 39,00,000 |
| Debentures | 9,00,000 | | |
| Preference shares | 4,50,000 | | |
| Equity shares | 12,00,000 | | |
| Retained earnings | 4,50,000 | | |
| | 39,00,000 | | 39,00,000 |

Anticipated external financing information:

(i) 20 years, 8% Debentures of Rs. 2,500 face value, redeemable at 5 per cent premium, sold at par, 2 per cent flotation costs.

(ii) 10% Preference shares: Sale price Rs. 100 per share, 2 per cent flotation costs.

(iii) Equity shares: Sale price Rs. 115 per share; flotation costs would be Rs. 5 per share.

(iv) The corporate tax rate is 35 per cent and expected equity dividend growth is 5 per cent per year. The expected dividend at the end of the current financial year is Rs. 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it.

22. A company is considering two mutually exclusive projects. Both require an initial investment of Rs. 50,000 each and have a life of five years. The cost of capital of the company is 10% and tax rate is 50%. The depreciation is charged on straight line method. The estimated net cash inflows (before depreciation and tax) of the two projects are as follows:

| Year | Project A (Rs.) | Project B (Rs.) |
|---|---|---|
| 1 | 20,000 | 30,000 |
| 2 | 22,000 | 27,000 |
| 3 | 28,000 | 22,000 |
| 4 | 25,000 | 25,000 |
| 5 | 30,000 | 20,000 |

Evaluate the project on the basis of a) pay back period b) Average rate of return c) Net present value d) Profitability index

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