STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.

(For candidates admitted during the academic year 2004-2005 & thereafter)

SUBJECT CODE : **CM/SC/FM44**

B.Com. DEGREE EXAMINATION APRIL 2007

COMMERCE

FOURTH SEMESTER

COURSE	:	**SPECIALISATION – CORE**	
PAPER	:	**FINANCIAL MANAGEMENT**	
TIME	:	**3 HOURS**	**MAX. MARKS : 100**

SECTION - A

ANSWER ALL QUESTIONS: (10 x 3 = 30)

1. State the features of an appropriate capital structure.

2. How is financial leverage computed ?

3. State three determinants of working capital.

4. What are the forms of dividend ?

5. State the importance of Economic ordering Quantity.

6. Calculate Pay back period of the following Investment Proposal:
   Cash inflows: I year Rs.15,000, II year Rs.45,000, III year Rs.60,000, IV year Rs.90,000.
   Initial Investment Rs.1,50,000.

7. From the following data calculate Operating Leverages:
   Sales Rs.20,000units @ Rs.20 per unit: Variable cost Rs.8 per unit: Fixed cost Rs.80,000.

8. The consumption of an electronic spare part, in a component manufacturing company is 50,000 units. The ordering cost per order is Rs.500 the cost per unit of the spare part is Rs.20 and the carrying cost is 10% of the average inventory value. Calculate EOQ.

9. A company's market price of the share is Rs. 200 and plans to pay a dividend of Rs.12 per share. The growth rate of dividend is 12%. Find cost of Equity capital.

10. A company issues Debentures worth Rs.12,00,000 at 12%. Its earnings before interest and tax amount to Rs.3,00,000. Its overall cost of capital 14%. Find cost of Equity stock .

SECTION – B

ANSWER ANY FIVE QUESTIONS: (5X8=40)

11. State the objectives of Financial Management.

12. How are Receivables forecasted?

13. State the functions of cash management.

14. Which of the following should be selected as they are mutually exclusive.

YEAR	CASH INFLOWS	
	M	N
1	10000	30000
2	40000	50000
3	30000	80000
4	60000	40000
5	90000	60000

Both of the projects require an investment of Rs.1,00,000/-
Target (return on investment) 12%

NPV factor: Year:	1	2	3	4	5
@ 12%	0.893	0.797	0.712	0.636	0.567

15. Prepare an estimate of working capital requirement from the following information.
Project annual sales Rs.8,00,000; Percentage profit on sales 25%;
Average credit period allowed to customers – 8 weeks
Average credit period allowed by suppliers – 4 weeks
Average stock holdings in terms of sales requirement – 12 weeks
Allow 10% for contingencies

16. A company has the following capital structure. Calculate WACC.

Securities	Book Value in Rs.	After – tax cost
Equity shares	9,00,000	15%
Retained earnings	3,00,000	15%
Preference Share Capital	2,00,000	8%
Debentures	16,00,000	6%

17. A firm has sales of Rs.10,00,000. Variable cost Rs.7,00,000 and fixed cost of Rs.2,00,000, debt of Rs.5,00,000 @ 10% rate of interest. Calculate all the three types of Leverages.

SECTION – C

ANSWER ANY TWO QUESTIONS: (2x15=30)

18. Discuss the factors governing determinants and constraints of Dividend Policy.

19. Fims JACK & JILL are identical, except that firm JACK is "unlevered", but Firm JILL is "levered". The following data relate to them:

	Firm JACK	Firm JILL
Assets	500000	500000
Equity share capital	500000	250000
Debt capital	0	250000 (9% interest)
Number of shares	50000	25000
Rate of return on assets	20%	20%

Calculate EPS for both firms, assuming tax rate of 50%.

20. ABC Company has currently, ordinary share capital of Rs.25 lakhs, consisting of 25000 shares of Rs.100/- each. The management is planning to raise another Rs.20 lakhs to finance a major programme of expansion through one of four possible financial plans. The options are:
    1. Entirely through Equity Shares.
    2. Rs.10 lakhs through Equity and balance through Long term borrowings @ 8% int. p.a.
    3. Rs.5 lakhs through Equity and balance through Long term borrowings @ 9% int. p.a.
    4. Rs.10 lakhs through Equity and balance through Preference shares with 5% dividend.

    The company's EBIT Rs.8 lakhs. Assume tax @50%. Which alternative is 'best'? Why?

21. Estimate the working capital requirement from the following information. You are given the following estimates and are instructed to add 20% as contingencies:

1. Amount blocked up in stock	Rs.
Stock of finished goods	6,000
Stock of stores & materials	10,000
2. Average credit sales	
Inland sales	3,00,000
Export sales	80,000
3. Lag in payments:	
Wages – 2 weeks	2,50,000
Stock of Raw materials – 2 months	50,000
Rent, royalties – 6 months	10,000
Clerical staff – 1 month	5,000
Miscellaneous Expenses – 2 months	50,000
4. Payments in Advance:	
Sundry expenses (paid quarterly)	10,000

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