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 2014
COMMERCE
SECOND SEMESTER

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

SECTION – A

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

1. What is risk-return tradeoff?
2. What is an annuity?
3. Explain the concept of "Indifference point".
4. Cost of Capital is the function of Management preferences – comment.
5. Write a brief note on Stock dividend & Stock split.
6. A company has the following capital structure:

SECURITIES	BOOK VALUE IN Rs.	AFTER TAX COST (%)
Equity share capital	8,50,000	15
Retained Earnings	2,25,000	10
Preferred capital	1,50,000	18
Debentures	10,00,000	6
	22,25,000	

From the above information, you are required to find out weighed average cost of capital.

7. Calculate the degree of Operating, & financial leverage from the following data:
Sales – 1,00,000 units @ Rs.2 per unit
Variable cost per unit Re.0.70
Fixed cost Rs.1,00,000
Interest charges Rs.4,000.

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

9. 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 10 percent Discount.

10. 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 expect a growth rate of 5% per year. Compute the company's cost of equity capital.

SECTION – B

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

11. "The potential analyst should take into account 'time value of money' to take objective decision". Amplify this statement.

12. What is 'Capital rationing'? Does it lead to sub optimal investment decisions?

13. Explain the factors that determine the dividend policy of a firm. Write a note on Stability of dividends.

14. How are Capital Budgeting proposals appraised by the management?

15. 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.

16. Determine which of the following two machines is better using NPV factor @14% year.

Year	1	2	3	4	5
Machine-X	40000	120000	160000	240000	160000
Machine-Y	120000	160000	200000	120000	80000
P/v factor	0.877	0.769	0.675	0.592	0.519

17. Calculate the degree of Operating &, Financial leverages under situations A and B for the Financial plans I & II respectively from the following relating to the Capital structure of Jeans Ltd:

Installed capacity 1000 Units; Actual production and sales: 800 units
Selling price per unit Rs.20; Variable cost per unit Rs.15
Fixed cost: Situation – A Rs.800. Situation – B Rs.1, 500.

Financial plan:	I	II
Equity capital	Rs.5,000	Rs.7,000
Debt	Rs.5,000	Rs.2,000 (cost of Debt @ 10%).

18. ABC Ltd. is considering investing in a project that costs Rs. 5,00,000. The estimated salvage value is Rs. 50,000 and working capital investment is Rs. 25,000. The tax rate is 35%. The company uses straight line method of depreciation for tax purposes and the project has earnings before tax as follows:

Year	CFBT
1	1,00,000
2	1,00,000
3	1,50,000
4	1,50,000
5	2,50,000

Determine (a) Pay back Period (b) ARR.

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 the features and limitations of three approaches to the determination of firm's capital structure:
    a) EBIT-EPS approach
    b) valuation approach and
    c) Cash flow approach.

21. Metro Transport curently has 10,00,000 shares of Equity outstanding with a market price of Rs.50 per share. It also has Rs.4,00,000 in 12% Bonds. The company is considering Rs.5,00,000 expansion programme that it can finance either (i) All Equity shares at Rs.40 per share. (ii) Straight Bonds at 15% interest (iii) Preference shares at 14% or (iv) Half Equity Shares at Rs.40 per share and half 15% Bonds.

    a) For a EBIT level of Rs.2,50,000 after the expansion programme, Calculate the earnings per share for each of the alternatives methods of financing. Assume a corporate tax rate of 50%.
    b) What are the "Indifference points" between alternatives? Calculate EPS at these Indifference points? What is your opinion of these?

22. S Ltd., a highly profitable company plans to introduce a new product with the projected life of 5 years. Investment required is as follows:

    Machinery – Rs. 60 lakhs
    Working Capital—Rs. 15 lakhs
    The plant has a capacity to produce 12 lakh units per annum and its capacity utilization during the 5 years of working life is expected as follows:

    First year-50%; Second year-60%; Third year- 80%; Fourth and Fifth year -100%.

    The selling price per unit will be Rs. 20 for the first 3 years and Rs. 25 in the last two years. Variable cost is expected to be 60% of the sale price.
    Fixed cost incurred for the project is expected to be Rs. 30 lakhs p.a. In addition, advertising expenses of Rs. 1 lakh is to be incurred in the first year increasing by Rs. 50,000 p.a. from the second year onwards.
    Machinery has a life of 5 years and expected salvage value of Rs. 10 lakhs at the end of its life. Depreciation is to be provided under the SLM. Cost of capital-12% and the tax rate-50%. Should the company implement the project.

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