STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2008–2009 & thereafter)

SUBJECT CODE : CM/MC/FM44

B.Com. DEGREE EXAMINATION, APRIL 2012
CORPORATE SECRETARYSHIP
FOURTH SEMESTER

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

ANSWER ALL QUESTIONS: **(10 x 3 = 30)**

SECTION – A

1. Define the Term Financial Management.

2. Write down the formula for determining the best project through Accounting Rate of Return.

3. State three determinants of working capital.

4. Writer a short note on IRR.

5. What do you mean by the gross concept of working capital?

6. Mrs. Swetha deposited Rs. 7,50,000 at 9 % interest. She wants to know in how many years she will get Rs. 30,00,000.

7. A project cost Rs. 20 lakhs and yields annually a profit of 3 lakhs after depreciation at 15% but before tax at 30 %. Calculate pay back period.

8. A company issues a 10% irredeemable preference share. The face value per share is Rs. 100, but the issue price is Rs. 95. What is the cost of preference share? What is the cost if the issue price is Rs. 105?

9. 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.

10. Calculate the cost of Equity capital of X ltd. The current market price is Rs. 160. Current dividend per share is 6.40 dividend is expected to grow @8%.

SECTION – B

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

11. How is the goal of wealth maximization a better operative criterion than profit maximisation?

12. The analysis of working capital helps in the effectiveness of business management – Explain.

13. What do you mean by weighted average cost of capital? explain the significance.

14. A company has the following capital structure. Calculate Weighted Average Cost of Capital.

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%

15. The current market price of share is Rs. 50. The firm needs Rs. 20,00,000 for its expansion. And the new shares can be sold only at Rs. 40.the expected dividend per share is 4.75 per share with a growth rate of 6 %. Calculate the cost of existing equity and the cost of new equity.

16. From the following determine the working capital requirement.

Projected annual sales (Rs.)	65,00,000
Percentage of net profit on cost of sale	30%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock Carrying (terms of sales requirements)	8 weeks
Add 10% for contingencies	

17. Ramco cements ltd is considering two different investment proposals. X and Y. The details are

	Proposal X	Proposal Y
investment at cost	1,90,000	4,00,000
CFAT (cash flow before tax and after depreciation)		
year 1	80,000	1,60,000
year2	80,000	1,60,000
year3	90,000	2,40,000

Suggest the most attractive proposal on the basis of NPV at 12% discount.

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x 15 = 30)

18. A X company is considering an investment proposal to install a new machinery. The proposal will cost Rs. 50,00,000 The expected life is 5 years. And no salvage value. Tax rate is 55% depreciation on straight line basis. Estimated profit before depreciation from the proposed investment is as follows.

Year	1	2	3	4	5
Profit (in lakhs)	10	11	14	15	25

Compute the following:
Average Rate of Return
Net Present value at 10% discount
Profitability index at 10% discount rate
Internal rate of return

19. The following items have been extracted from the liability side of alpha ltd as on 31/3/2011.

paid up share capital:

200,000 equity shares of 10 each	20,00,000
Reserves and surplus	30,00,000
Loans :	
15% non convertible debentures	10,00,000
14% institutional loans	30,00,000

Other information is given below

Year ended	Dividend per share	Earning per share	Av market price per share
2011	Rs.4	7.50 Rs.	50 Rs.
2010	Rs.3	6.00	40
2009	Rs.4	4.50	30

Calculate WACC using book values as weights and EPS ratio as a basis of cost of equity. Tax rate assume as 50%.

20. The board of directors of Z LTD. request you to prepare statement showing the working capital requirements forecasts for a level of activity of 1,56,000 units of production. The following information is available for your calculation.

	Rs. (Per unit)
Raw materials	90
Direct Labour	40
Overheads	75
	205
Profit	60
Selling price per unit	265

1. Raw materials are in stock on average one month
2. Materials are in process on average two weeks
3. Finished good are in stock on average one month
4. Credit allowed by suppliers – one month
5. Time lag in payment from debtors – two month
6. Lag in payment of wages – 1½ weeks
7. Lag in payment of overheads – one week
8. 20% of output is sold against cash, cash in hand at bank is expected to be Rs. 60000. It is to be assumed that production is carried on evenly throughout year. Wages and overheads accrue similarly and a time period of four weeks in equivalent to a month.

21. An engineering Company is considering the purchase of a new machine for its immediate expansion programme there are possible machines suitable for the purpose.

Particulars	**M1 (Rs.)**	**M2 (Rs.)**	**M3 (Rs.)**
Capital Cost	3,00,000	3,00,000	3,00,000
Sales	5,00,000	4,00,000	4,50,000
Direct material	40,000	50,000	48,000
Direct labour	50,000	30,000	36,000
Factory overheads	60,000	50,000	58,000
Administration cost	70,000	10,000	15,000
Selling cost	10,000	10,000	10,000
The lift of machine	2 years	3 years	3 years
Scrap values	40,000	25,000	30,000
Tax	50%	50%	50%

Calculate the payback period of each machine.

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