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

SUBJECT CODE : 11CM/MC/FM44

B.Com./B.Com(CS) DEGREE EXAMINATION APRIL 2013
COMMERCE
CORPORATE SECRETARYSHIP
FOURTH SEMESTER

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

SECTION – A

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

1. Explain Modern approach to financial management.
2. What do you understand by time value of money?
3. Explain the term "Operating Cycle" in detail.
4. Write a note on "Weighted Average Cost of Capital".
5. Give the meaning of NPV, and how it is calculated?
6. Sun Industrial Ltd. offers 14% interest on fixed deposits. What is the effective rate of interest if compounding is done

   a) half-yearly b) quarterly and c) monthly
7. Kamal Ltd., is engaged in customer retailing. You are required to forecast its working capital from the following information:- Projected annual sales Rs. 6,50,000; percentage of N.P on cost of sales 25%; Average credit allowed by creditors 4 weeks; Average stock carrying (in terms of sales requirements) 8 weeks; Add 20% for contingencies.
8. 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.
9. A company's cost of equity capital is 12%. The brokerage cost of purchase of securities is 2%. The personal tax rate of share holders is 50%. Compute the cost of retained earnings.
10. A project costs Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation at 12% per annum but before tax at 50%. Calculate pay back period.

SECTION – B

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

11. "Liquidity and profitability are competing goals for the finance manager". Comment.

12. What are the major types of financial management decisions that business firms take? Describe each.

13. Explain the factors influencing working capital requirement of a firm.

14. Mr. Raj invests Rs. 25,000 in a bank at 10% for 5 years. Calculate the maturity value if interest is compounded annually. Will he get more if interest is compounded half yearly?

15. From the following information, prepare a statement showing the estimated working capital requirements:- Budgeted sales Rs. 2,60,000 p.a. Analysis of cost and profit of each unit:-

	Rs.
Raw materials	3
Labour	4
Overheads	2
Profit	1
Selling price per unit	10

It is estimated that:- (a) Pending use, raw materials are carried in stock for three weeks and finished goods for two weeks. (b) Factory processing will take 3 weeks. (c) suppliers will give 5 weeks credit and customers will require 8 weeks credit. It may be assumed that production and overheads accrue evenly throughout the year.

16. Calculate the approximate cost of company's debenture before tax and after tax, when it decides to issue 10,000 Nos. of 14% Debentures, each of the face value Rs. 100 at par. The debentures are redeemable at premium of 10% after 10 years. The debenture is expected to be issued at 8% discount and the tax rate applicable to the company is 40%.

17. A large sized chemical company is considering investing in a project that costs Rs. 5,00,000. The estimated salvage value is zero; tax rate is 35 per cent. The company uses straight line depreciation and the proposed project has cash flows after depreciation but before tax (CFBT) as follow:

Year	**CFBT**
1	Rs.1,00,000
2	1,00,000
3	1,50,000
4	1,50,000
5	2,50,000

Determine the following: (a) Pay back period, and (b) Average rate of return.

SECTION – C

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

18. Nalli Mills Ltd., is considering two mutually exclusive investments for its expansion programme. Proposal A required an investment of Rs. 7,80,000 and cash operating cost of Rs. 60,000 p.a. Proposal B requires an investment of Rs. 5,10,000 and cash operating cost of Rs. 1,20,000 p.a. The life of the equipment in both the cases will be 12 years with no salvage value. The anticipated increase in revenue is Rs. 1,70,000 p.a. in both investment proposals. The firm's tax rate is 40% and its cost of capital is 15% and depreciation is calculated on straight line basis. Which investment proposal should be undertaken by the company? Given:- Present value of an annuity of Re.1 at 15% for 12 years is 5.421.

19. A proforma cost sheet of a company provides the following particulars:

	Amount per unit
Element of Cost:	
Raw materials	Rs. 80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available.

Raw materials in stock, on average, one month; Materials in process (completion stage, 50 per cent), on average, half a month; Finished goods in stock, on average, one month.

Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs. 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 unit of production.

20. A company was recently formed to manufacture a new product. It has the following capital structure:-

		Rs.
(i)	9% debenture	10,00,000
(ii)	7% preference shares	4,00,000
(iii)	Equity shares (48000 shares)	16,00,000
(iv)	Retained earnings	10,00,000
		40,00,000

The market price of equity share is Rs. 80. A dividend of Rs. 8 per share is expected. The company has tax rate of 50%. Compute weighted average cost of capital of the company.

21. X Ltd. is considering investing in a project requiring a capital outlay of Rs. 8,00,000. Forecast for annual net incomes after depreciation but before tax are as follows:-

Year	1	2	3	4	5
Profit(Rs.)	4,00,000	4,00,000	3,20,000	3,20,000	1,60,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

You are required to evaluate the project according to each of the following methods (a) Pay back method (b) Rate of Return on Original investment method (c) Rate of Return of Average Investment method (d) Profitability Index method taking cost of capital as 10%, ie. 1st year 0.909, 2nd year 0.826, 3rd year 0.751, 4th year 0.683 and 5th year 0.621.

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