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 2015
COMMERCE
SECOND SEMESTER

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

SECTION – A

ANSWER ALL QUESTIONS: (10 x 2 = 20)

1. Define Financial Management.
2. What do you mean by mutually exclusive projects?
3. Define Capital Structure.
4. What do you mean by cost of capital?
5. What is trading on equity?
6. Mr. R invests Rs.25, 000 in a bank at 10% for 2 years. Calculate the maturity value if interest is compounded half yearly.
7. A project costs Rs.20 lakh and yields annually a profit of Rs.3 lakhs after depreciation at 12.5% but before tax at 50%. Calculate Payback period.
8. Calculate EPS from the following data: Net Profit before tax - Rs.1, 00,000, Tax rate - 50%, 10% Preference share capital (Rs.10 each) Rs.1, 00,000. Equity Share capital (Rs.10 per share) Rs.1, 00,000.
9. P/V ratio is 50%. Margin of safety is 40%. Calculate BEP and Fixed cost if the sales is Rs.50 Lakhs.
10. A company issued 10,000 10% irredeemable debentures of Rs.100 each. The company is in the 55% tax bracket. Calculate the after tax cost of debt if the debentures are issued at 10% discount.

SECTION – B

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

11. What do you understand by time value of money? Why do individuals have a time preference for money?
12. What do you mean by cash flows? Briefly discuss cash flows in a capital budgeting proposal.
13. What do you mean by “indifference point”? How is it calculated?
14. Discuss the importance of cost of capital in managerial decisions.
15. Two firms A and B are identical in all respects except the degree of leverage. Firm A has 6% debt of Rs.3, 00,000 while Firm B has no debt. Both firms earn an EBT of Rs.1, 20,000 each. The equity capitalization rate is 10% and the corporate tax is 60%. Compute the market value of the two firms.

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16. A company offers for public subscription equity shares of Rs.10 each at a premium of 10%.The company pays 5% of issue price as underwriting commission. The rate of dividend expected by equity shareholders is 20%. Calculate cost of equity capital. Will your cost of capital be different if it is calculated on the present market value of shares which is Rs.15?

17. A firm has sales of Rs.15 Lakhs, Variable cost of Rs. 9 Lakhs, Fixed cost of Rs. 3 Lakhs and Debt of Rs. 8 Lakhs at 8 %.
 (1) Calculate operating, Financial and Combined leverage.
 (2) If the firm wants to double its EBIT what should be the sales.

18. P Ltd is producing articles mostly by manual labour and is considering replacing it by a new machine. There are 2 models M and N of the new machine. Prepare a statement of profitability showing the payback period from the following information.

	Machine M	Machine N
Estimated life of machine	4 years	5 years
Cost of machine (Rs)	9,000	18,000
Estimated savings in scrap (Rs)	500	800
Estimated savings in direct wages (Rs)	6,000	8,000
Additional cost of maintenance (Rs)	800	1,000
Additional cost of supervision (Rs)	1,200	1,800

Ignore tax. Which machine is preferred and why?

SECTION – C

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

19. Explain how wealth maximization objective is superior to profit maximization objective. Show how investment, financing and dividend decision of a company helps in achieving wealth maximization objective.

20. What do you mean by optimal capital structure? What are the factors to be kept in mind while determining the capital structure of a company?

21. X Ltd is considering investing in a project requiring a capital outlay of Rs. 2 Lacs Forecast for annual net incomes after depreciation but before tax are:

Year	**1**	**2**	**3**	**4**	**5**
Profits (Rs)	1, 00,000	1, 00,000	80,000	80,000	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. Evaluate the project according to: (a) ARR method (b) NPV method taking cost of capital as 10%.

22 Excel Industrial Ltd has assets of Rs. 1, 60,000 which have been financed with Rs.52, 000 of debt and Rs. 90,000 of equity and a general reserve of Rs 18,000. The firm's total profits after interest and taxes for the year ended 31^{st} March, 2014, were Rs 13,500. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 Equity shares of Rs. 100 each selling at a market price of Rs 120 per share. What is the Weighted average cost of capital?

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