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

SUBJECT CODE: 11CM/MC/FM44

B.Com./B.Com(CS) DEGREE EXAMINATION APRIL 2015
COMMERCE
FOURTH SEMESTER

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

SECTION – A

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

1. "The Wealth Maximisation is Superior criterion than profit maximisation". Do you agree.
2. Explain the discounting technique of adjusting for time value of money.
3. "Depreciation should be ignored while determining the working capital need for a firm". Why?
4. Why is debt the cheapest source of finance for a profit making firm?
5. What are the various techniques of capital budgeting decisions? Explain briefly any one of them.
6. Raj makes an initial deposit of Rs. 2, 00,000 in Lakshmi Bank Ltd. interest is compounded at 10% p.a. for 6 years. Compute the amount of maturity.
7. The following information is available in respect of Amla Ltd.

   Stock holding: Raw materials 1 month, Work-in-progress : 15 days, Finished goods : 1 month.

   Debtors collection period : 2 months, time lag in payment of bills : 45 days.
   Calculate
   (a) Operating cycle
   (b) Number of operating cycle in a year assuming a 360 day year
   (c) Average working capital required, if annual cash operating expenses are Rs. 180 lakhs.

8. Asin Ltd. issued 15,000 12% preference shares of Rs. 100 each, redeemable at 10% premium after 10 years. The floatation costs were 5%. Find out the cost of preference share capital if shares are issued at a premium of 5%.
9. A project costs Rs. 20, 00,000 and yields annually a profit of Rs. 3, 00,000 after depreciation at 12.5% but before tax at 50%. Calculate pay back period.
10. The market price of an equity share of Anne Ltd., is Rs. 120. The dividend expected a year is Rs. 2.40 per share. The shareholders anticipate a growth of 8% in dividend. You are required to ascertain the cost of equity capital.

SECTION – B

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

11. How the financial decision making involve risk-return trade off?
12. Explain the dangers of having excessive working capital in a firm.
13. “Capital investment decisions are the part of the capital budgeting process”. Explain in detail the various process involved.
14. Baby’s father wants to give her Rs. 2, 50,000 on her 24th birthday. Today is her 14th birthday. He wants to know

    a) How much annual payment is to be made by him into a fund?, and

    b) Alternatively how much is to be invested in the fund in lumpsum?

    The fund earns an interest of 8% which is compounded annually. You may use compound value table.
15. Cost sheet of a Company provides the following particulars:

    Elements of cost:

    Raw materials : 40%

    Labour : 10%

    Overheads : 30%

    The following particulars are also available:

    (i) Raw material remain in stock for 6 weeks.

    (ii) Processing time: 4 weeks.

    (iii) Finished goods are in stock for 5 weeks.

    (iv) Period of credit allowed to debtors: 10 weeks.

    (v) Lag in payment of wages: 2 weeks.

    (vi) period of credit allowed by creditors : 4 weeks.

    (vii) selling price Rs. 50 per unit.

    (viii) production in units : 13000 p.a.

    Prepare an estimate of working capital.
16. Kinley Ltd., issued 50,000 10% debentures of Rs. 100 each, redeemable in 10 years time at 10% premium. The cost of issue was 2.5%. The company’s income tax is 35%. Determine the cost of debt (before as well as after tax). If they were issued at par.
17. Project M has an initial investment of Rs.3, 00,000. Its cash flows for five years are Rs. 90,000, Rs. 1, 08,000, Rs. 90,000, Rs. 70,200 and Rs. 72,000. Determine the discounted payback period assuming a discount rate of 10% p.a.

p/v factor @ 10% :-

Year	1	2	3	4	5
p/v factor	0.909	0.826	0.751	0.683	0.621

SECTION – C

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

18. From the following capital structure of a company, compute the overall cost of capital using (i) Book value weights and (ii) Market value weights.

Source	Book Value Rs.	Market Value Rs.	After Tax Cost Rs.
Equity share capital (Rs. 10 per share)	45,000	90,000	14
Retained earnings	15,000	--	13
Preference share capital	10,000	10,000	10
Debentures	30,000	30,000	5

19. A company has prepared its annual budget, relevant details are reproduced below:

(i) Sales Rs. 46.80 lakhs (25% cash sales) : 78,000 units
(ii) Raw materials cost : 60% of sales value
(iii) Labour cost : Rs. 6 per unit
(iv) Variable O.H : Re. 1 per unit
(v) Fixed overheads : Rs. 5 lakhs (including Rs. 1,10,000 as depreciation)
(vi) Budgeted stock levels:
  Raw materials : 3 weeks
  Work in progress : 1 week (material 100%, labour and overheads 50%)
  Finished goods : 2 weeks
(vii) period of credit allowed to debtors : 4 weeks
(viii) period of credit allowed by creditors : 4 weeks
(ix) wages are paid : Bimonthly
(x) Lag in payment of overheads : 2 weeks
(xi) Cash in hand required : Rs. 50,000

Prepare the working capital budget for the company.

20. Jolly Company has an investment opportunity costing Rs. 1,00,000 with the following expected cash inflow:

Year	Inflow	P V factor @10%	Year	Inflow	P V factor @10%
1	17000	0.909	6	18,000	0.564
2	17000	0.826	7	10,000	0.513
3	17000	0.751	8	15,000	0.467
4	17000	0.683	9	10,000	0.424
5	17000	0.621	10	14,000	0.386

Calculate Average Rate of Return and also by Using 10% as the cost of capital determine:

(i) Net Present Value and

(ii) Profitability Index.

21. A company is considering a new project for which the investment data are as follows:

Capital outlay : Rs. 2, 00,000

Depreciation : 20% p.a.

Forecasted annual incomes before charging depreciation, but after all other charges are as follows:

Year 1	Rs. 1, 00,000
.. 2	1, 00,000
.. 3	80,000
.. 4	80,000
.. 5	40,000
	4, 00,000