

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2015 – 16)

SUBJECT CODE: 15CM/PC/FM24

M.Com. DEGREE EXAMINATION APRIL 2016
COMMERCE
SECOND SEMESTER

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

SECTION – A

ANSWER ANY SIX QUESTIONS: (6 x 10 = 60)

1. Define Financial Management. Explain the objectives of Financial Management.
2. From the following Capital Structure of a Company Compute the overall cost of Capital using:
 - a) Book Value Weights and b) Market Value Weights

| | Book value | Market Value |
|--|------------|--------------|
| Equity Share Capital (Rs. 10/- per share) | 45,000 | 90,000 |
| Retained Earnings | 15,000 | - |
| Preference Share Capital | 10,000 | 10,000 |
| Debentures | 30,000 | 30,000 |

The after tax cost of different sources of finance is as follows:

| | |
|--------------------------|-----|
| Equity Share Capital | 14% |
| Retained Earnings | 13% |
| Preference Share Capital | 10% |
| Debentures | 5% |

3. Kavitha Ltd a widely held company is considering a major expansion of its production facilities and the following financing alternatives are available:

| | Alternatives (Rs in Lakh) | | |
|--|----------------------------|----|----|
| | X | Y | Z |
| Equity Share Capital (Rs 10/- each) | 60 | 30 | 10 |
| 12% Debentures | - | 20 | 25 |
| 15 % Loan from financial Institutions | - | 10 | 25 |

Expected rate of return before tax is 20 %. The rate of dividend of the company is not less than 18%. The company at present has low debt. Corporate taxation is 35 %. Which of the alternatives you would choose?

4. Write short notes on :
- a) Optimal Capital Structure b) Concept of Time value of Money.
5. Project V care requires an investment of Rs. 20 lakh and yields profits after tax and depreciation as follows:

| Year | 1 | 2 | 3 | 4 | 5 |
|--------------------------------------|----------|----------|----------|----------|----------|
| Profit after Tax and Depreciation | 1,00,000 | 1,50,000 | 2,50,000 | 2,60,000 | 1,60,000 |

At the end of fifth year, the plant can be sold for Rs. 1, 60,000. You are required to calculate ARR.

6. AV Ltd issues 14 % irredeemable preference shares of the face value of Rs 100 each. Flotation costs are estimated at 5 % of the expected sale price. What is the K_p . If preference shares are issued at a) par b) 10% premium c) 5% discount.
7. A company's current operating income is Rs 4 lakh. The firm has Rs. 10 lakh of 10 percent debt outstanding. Its cost of equity capital is estimated to be 15 percent.
- a) Determine the current value of the firm, using traditional valuation approach.
b) Calculate the overall capitalization rate as well as both types of leverage ratio:
a) Debt to Equity ratio b) Debt to Value ratio.
8. Explain briefly the different types of Dividend.

SECTION – B

ANSWER ANY TWO QUESTIONS:

(2 x 20 = 40)

9. Explain the popular methods of Risk Analysis under Capital Budgeting.
10. What do you mean by dividend policy? State the factors determining the Dividend Policy of the firm.

11. The following items have been extracted from the liabilities side of the balance sheet of Martha Ltd as at 31.12.2015.

Paid up Capital

2, 00,000 equity shares of Rs. 10 each Rs. 20, 00,000

Reserves and Surplus Rs. 30, 00,000

Loans:

15% Non convertible Debentures Rs. 10, 00,000

14% Institutional Loans Rs. 30, 00,000

Other information about the company as relevant is given below:

| Year ended 31 st December | Dividend per share | Earnings per share | Average market price per share |
|---|--------------------|--------------------|-----------------------------------|
| 2015 | 4.00 | 7.50 | 50.00 |
| 2014 | 3.00 | 6.00 | 40.00 |
| 2013 | 4.00 | 4.50 | 30.00 |

You are required to calculate the WACC using book values as weights and Earnings/Price (E/P) ratio as basis of cost of equity. Assume tax rate is 50%.

12. Assuming no taxes and given the earning before interest and taxes(EBIT), interest (I) at 10 percent equity capitalization rate (K_e) below, calculate the total market value of each firm.

| Firms | EBIT | I | K_e (percent) |
|-------|----------|----------|-----------------|
| A | 2,00,000 | 20,000 | 12 |
| B | 3,00,000 | 60,000 | 16 |
| C | 5,00,000 | 2,00,000 | 15 |
| D | 6,00,000 | 2,40,000 | 18 |

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