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 2016
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. Define financial management.
2. Differentiate risk from uncertainity.
3. What is time value of money?
4. Rs.1000 invested at 10 % is compounded annually for three years. Calculate the compounded value after three years.
5. What is net working capital?
6. ABC Ltd., expects its cost of goods sold for 2000 - 2001 to be Rs. 600 lakhs. The expected operating cycle is 90 days. It wants to keep a minimum cash balance of Rs. One lakh. What is the expected working capital requirements? Assume a year consists of 360 days.
7. The current market price of an equity share of accompany is Rs. 90. The current dividend per share is Rs. 4.50. In case of the dividends are expected to grow at the rate of 7%. Calculate the cost of equity capital.
8. What is Retained Earnings?
9. Calculate the Pay back period with the following information:

   Initial Outlay Rs. 80,000

Cash Inflows	I Year	Rs. 20,000
	II Year	Rs. 22,000
	III Year	Rs. 26,000
	IV Year	Rs. 32,000
	V Year	Rs. 35,000

10. Calculate the net present value for a small – sized project requiring an initial investment of Rs. 20,000 and which provides a net cash inflow of Rs. 6,000 each year for six years. Assume the cost of funds to be 8% p.a. and that there is no scrap value.

SECTION – B

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

11. Explain the scope of financial management.
12. Discuss the various alternative investment proposals.

13. Explain the significance of time value of money.

14. A company issues 10,000 equity shares of Rs. 100 each at a premium of 10%. The company has been paying 25% dividend to equity shareholders for the past five years and expects to maintain the same in the future also. Compute the cost of equity capital. Will it make any difference if the market price of equity share is Rs. 175?

15. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

Period Covered	365 days
Average period of credit allowed by suppliers	16 days
Average Total of Debtors Outstanding	480
Raw Material Consumption	4,400
Total Production Cost	10,000
Total Cost of Sales	10,500
Sales for the year	16,000
Value of Average Stock maintained:	
Raw Material	320
Work-in-progress	350
Finished Goods	260

16. Priya ltd., has Rs. 80,000 to invest. It has two attractive proposals at hand for consideration. The alternatives are:

	Proposal X Rs.	Proposal Y Rs.
Investment outlay	80,000	80,000
Cash inflows: Year		
1	32,000	30,000
2	32,000	30,000
3	36,000	30,000
4	---	10,000
Total	**1,00,000**	**1,00,000**

Required:
a) Which investment proposal would you recommend under pay-back method?
b) Would you decisions be different if proposal Y has Rs. 40,000 in the third year instead of Rs. 30,000 inflow?

17. P is considering an investment opportunity which will give him cash inflows of Rs.1, 000, Rs. 1,500, Rs. 800, Rs. 1,100 and Rs. 400 respectively at the end of each of the next 5 years. You are required to find out the total present value of these cash inflows if his time preference rate is 10%.

SECTION – C

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

18. The following information is provided in respect of the specific cost of capital of different sources along with the book value (BV) and market value (MV) weights.

Source	C/C	BV	MV
Equity share capital	18%	0.50	0.58
Preference share capital	15%	0.20	0.17
Long term depts.	7%	0.30	0.25

(i) Calculate the weighted average cost of capital, using both the BV and the MV weights.

(ii) Calculate the WMCC using marginal weights given that the company intends to raise additional funds using 50% long term debts. 35% preference shares and 15% by retaining profits.

19. a) A company has issued 14% Rs. 100 each Preference shares aggregating Rs. 1, 00,000 to be redeemed after 10 years. Flotation cost is around 5%. Determine the true cost of Preference Shares.

b) A company issues 105 irredeemable debentures of Rs. 1, 00,000. The company is in 55% tax bracket. Calculate the cost of debt 9 before as well as after tax) if the debentures are issued at i) par; ii) 10% discount and iii) 10% premium.

20. A company is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 and will have a life of 5 years and no salvage value. The company's tax rate is 35% and no investment allowance is allowed. This firm uses straight line method of depreciation. The estimated net income before depreciation and tax from the proposed investment proposal are as follows:

Year	Net income before depreciation & tax (Rs.)
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following:

a) Pay back period.

b) Average Rate of Return.

c) Net present value at 10% discount Rate.

d) Profitability index at 10% discount Rate.

Following are the present value factors @ 10%.

Year	P.V. Factors at 10%	Year	P.V. factors at 10%
1	0.909	4	0.683
2	0.826	5	0.751
3	0.621		

21. You are supplied with the following information in respect of XYZ Ltd. For the ensuing year:

Production for the year	69,000 units
Finished goods in store	3 months
Raw material in store	2 months consumption
Production process	1 month
Credit allowed by creditors	2 months
Credit given by debtors	3 months
Selling price per unit	Rs. 50
Raw material	50% of selling price
Direct wages	10% of selling price
Overheads	20% of selling price

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of production cycle. You are required to find out its working capital requirements.