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

SUBJECT CODE: 15CM/MC/FM44

B.Com. / B.Com (CS) DEGREE EXAMINATION APRIL 2017
FOURTH SEMESTER

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

Section A

Answer ALL the questions. (10 x 2 = 20)

1. Define Financial Management.
2. What is the relationship between risk and return?
3. Raj makes an initial deposit of Rs. 2,00,000 in Laxmi Bank Ltd. Interest is compounded at 10% p.a. for 6 years. Compute the amount on maturity.
4. Calculate the present value of Rs. 2,00,000 to be received after 7 years at 10% compounded annually.
5. A company issues 10% irredeemable preference shares. The face value per share is Rs.100 but the issue price is Rs. 95. What is the cost of a preference share?
6. Malaiya Ltd. Issued 60,000 15% irredeemable preference shares of Rs. 100 each. The issue expenses were Rs. 60,000. Determine the cost of preference share capital if shares are issued at par.
7. Write any 2 objectives of capital budgeting.
8. Calculate IRR from the following details.
   Initial Outlay Rs. 1,00,000
   Life of the asset 6 years
   Estimated cash inflow Rs. 20,000
9. Define working capital
10. What is operating cycle?

Section B

Answer Any FIVE questions. (5 x 8 = 40)

11. Explain the objective of financial management.
12. Discuss the advantages of adequate working capital.
13. Mr. Kamal has rented out a shop for 4 years at an annual rent of Rs. 12,000. The tenant has agreed to the condition that the rent will increase by 10% every year. If the required rate of return is 8%, find out the present value of the expected series of rents.
14. Kaniska Ltd., wants to raise Rs. 30,00,000 by issue of new equity shares. The relevant information is given below.
    No. of existing equity shares - 50,000
    Profit after tax - Rs. 3,00,000
    Market value of existing equity shares - Rs. 20,00,000
    a) Compute the cost of existing equity capital
    b) Compute the cost of new equity capital if the shares are issued at a price of Rs. 35 per share and the floatation cost is Rs. 5 per share
15. A firm issues debentures of Rs. 1,00,000 and realised Rs. 98,000 after allowing 2% commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10^{th} year at par. Calculate cost of debt.
16. Project K requires an investment of Rs. 20 lakhs and yields profits after tax and depreciation as follows:

Year	Profit after tax & depreciation (Rs.)
1	1,00,000
2	1,50,000
3	2,50,000
4	2,60,000
5	1,60,000

At the end of 5^{th} year, the plant can be sold for Rs. 1,60,000. You are required to calculate ARR.

17. The cash flows from two mutually exclusive projects X and Y are as under:

Year	Project X (Rs.)	Project Y (Rs.)
0	(-) 44,000	(-) 54,000
1-7 (annual)	12,000	14,500
Project life	7 years	7 years

Calculate profitability index at 15% discount rate and suggest which project is profitable.

Section C

Answer Any TWO questions. **(2 x 20 = 40)**

18. Calculate the maturity amount if Rs. 2,00,000 is invested for 2 years at 12% compounded (A) Annually (B) Semi annually (C) Quarterly (D) Monthly.
19. Sakthi Ltd., issued 20,000 8% debentures of Rs. 100 each on 1^{st} April 2009. The cost of issue was Rs. 50,000. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax) if they were issued, (A) at Par (B) at a premium of 10% (C) at a discount of 10%.
20. Lissa Metals Ltd., is considering two different investment proposals, X and Y. The details are as under:

	Proposal X (Rs.)	Proposal Y (Rs.)
Investment cost	1,90,000	4,00,000
CFAT - Cash inflows before depreciation and after tax		
Year 1	80,000	1,60,000
Year 2	80,000	1,60,000
Year 3	90,000	2,40,000

Suggest the most attractive proposal on the basis of NPV method considering that the future incomes are discounted at 12%.

21. 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 five weeks credit and customers will require eight weeks credit
It may be assumed that production and overheads accrue evenly throughout the year.

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