STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004-2005 & thereafter)

SUBJECT CODE : **CM/SC/FM44**

B.Com. DEGREE EXAMINATION APRIL 2009
COMMERCE
FOURTH SEMESTER

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

SECTION – A

ANSWER ALL QUESTIONS: (10 x 3 = 30)

1. What is financial management?

2. Write a short note on Capital Structure.

3. Explain net working capital.

4. What is Accounting Rate of Return?

5. What do you understand by operating leverage.

6. If sales is Rs.2,00,000; Variable cost is Rs.1,00,000; Fixed cost is Rs.60,000 and interest is Rs.20,000; calculate the financial leverage.

7. Investors require a 12% rate of return on equity shares of company X. What would be the market price of the shares if the previous dividend (Do) was Rs.2 and investors expect dividends to grow at a constant rate of i) 4% ii) – 4%.

8. A project cost Rs.5,00,000 and yields annually a profit of Rs.80,000 after depreciation at 12% p.a. but before tax of 50% calculate pay back period.

9. XYZ Company has issued debentures with a maturity period of 5 years. The debentures are sold for Rs.90 (the face value is Rs.100). The debentures are to be redeemable at 5% premium. The rate of interest is 12% and the tax rate is 35%. Calculate cost of debt.

10. A project costs Rs.36,000 and is expected to generate cash inflows of Rs.11,200 annually for 5 years. Assume that the required rate of return is 12%. Find the NPV.

SECTION – B

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

11. Write shot notes on i) Motives of holding cash ii) Permanent & Temprorary working capital iii) Weighted Average cost of capital and iv) Capital budgeting.

12. What are the different modes of payment of dividend? Explain in detail.

13. Following information is taken from the records of a hypothetical company:- Installed capacity : 1000 units; operating capacity : 800 units; selling price per unit : Rs.10; variable cost per unit : Rs.7. calculate operating leverage under the following situations .

Fixed cost : Situation A : Rs.800
Situation B : Rs.1200
Situation C : Rs.1500.

14. A Company has on its books the following amounts and after-tax cost of each type of capital.

Type of capital	Book value	Market value	Specific cost %
Debt	Rs.4,00,000	Rs.3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000		15
Retained Earnings	2,00,000	12,00,000	13

Determine the weighted average cost of capital using a) Book value weights and b) Market value weights.

15. From the following information, calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

	Project X	Project Y
	Rs.	Rs.
Initial Investment	20,000	30,000
Estimated life	5 yrs	5 yrs

CFAT are as follows:-

Year	1	2	3	4	5
Project X (Rs.)	5,000	10,000	10,000	3,000	2,000
Project Y (Rs.)	20,000	10,000	5,000	3,000	2,000
PV factor for Re.1 @ 10%	0.909	0.826	0.751	0.683	0.621

16. What are the determinants of Economic ordering Quantity? What is the EOQ if the annual usage is 1600 units; ordering cost is Rs.100 and inventory carrying cost is Rs.8 per unit.

17. Pay off Ltd is producing articles mostly by manual labour and is considering to replace it by a new machine. There are two alternative models M and N. Calculate pay back period from the following information.

	Machine M	Machine N
Estimated life of the machine	4 yrs	5 yrs
Cost of machine	Rs.9,000	Rs.18,000
Estimates Saving in material	Rs.500	Rs.800
Estimated Savings in direct wages	Rs.6,000	Rs.8,000
Additional cost of Maintenance	Rs.800	Rs.1,000
Additional cost of supervision	Rs.1,200	Rs.1,800

SECTION – C

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

18. Explain the objectives of 'profit maximisation' and 'wealth maximisation'. Which of these, do you think is a better operational criteria for a finance manager.

19. M/s. Nagu Ltd., has a share capital of Rs.1,00,000 divided into 10,000 equity shares of Rs.10 each fully paid. It has a major expansion programme requiring an investment of another Rs.50,000. The management is considering the following alternatives for raising this amount.
a) Issue of 5000 equity shares of Rs.10 each.
b) issue of 5000, 12% preference shares of Rs.10 each
c) issue of 10% debentures of Rs.50,000.
The company's present earnings before interest and taxes (EBIT) is Rs.40,000. You are required to calculate the effect of each of the above modes of financing in arriving EPS (Earnings Per Share). Assume tax rate is 50% EBIT continues to be same even after expansion.

20. The financial manager of a company has formulated various financial plans to finance Rs.30,00,000 required to implement various capital budgeting projects.
i) Either equity shares capital of Rs.30,00,000 (or) Rs.15,00,000, 10% debentures and Rs.15,00,000 equity.
ii) Either equity share capital of Rs.20,00,000 and 10% debentures of Rs.10,00,000 (or) 13% preference capital of Rs.10,00,000, 10% debentures of Rs.8,00,000 and Rs.12,00,000 equity.
You are required to determine the indifference point for both the financial plans, assuming 35% corporate tax rate and the face value of equity shares as Rs.100. Also show the confirmation table.

21. A proforma cost sheet of a company provides the following particulars.

	Per unit
Analysis of costs:-	Rs.
Raw materials	3.00
Direct labour	4.00
Overheads	2.00
Total cost	9.00
Profit	1.00
Sales	10.00

It is estimated that (i) Raw materials are carried in stock for three weeks and finished goods for two weeks.
(ii) WIP will take three weeks
(iii) Suppliers will give full five weeks credit
(iv) Customers will require eight weeks credit.
(v) Budgeted level of production is 26000 units.
(vi) Cash in hand desired to be maintained is Rs.25,000.
It may be assumed that production and overheads accrue evenly throughout the year. Prepare a statement showing the working capital requirement of the company.

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