STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 86
(For candidates admitted during the academic year 2004– 05 & thereafter)

SUBJECT CODE : **EC/PE/FM24**

M. A. DEGREE EXAMINATION, APRIL 2007
BRANCH III – ECONOMICS
SECOND SEMESTER

COURSE : **ELECTIVES**
PAPER : **FINANCIAL MANAGEMENT**
TIME : **3 HOURS** MAX. MARKS : 100

SECTION – A

ANSWER ANY FIVE QUESTIONS. ANSWER NOT TO EXCEED 300 WORDS.
(5 X 8 = 40)

1. Define financial management. How do you visualize the changing role of financial management in the context of liberalization in India.

2. What is inventory management? Explain briefly how is this done with a suitable example.

3. Discuss the net operating income approach to capital structure.

4. Distinguish between NPV and IRR method with a suitable example.

5. How would you define risk? Discuss briefly the relationship between risk and return

6. A firm's sales have increased from Rs.100000 (previous year) to Rs.120000 (current year) Suppose that : a] the firm's total variable costs equal to 70% of sales and there are no fixed costs, b] the firm's total costs involve both fixed and variable costs, and the cost make up is : Fixed cost = Rs.35000 and Variable cost = 35% of sales.
You are required to present calculations to show that :
a] in the absence of fixed cost [i.e. operating leverage] the percentage change in profits is equal to the percentage change in sales or volume of operations and b] with the use of fixed costs, the percentage change in profits is more than the percentage change in sales or the volume of operations.

7. A company purchased a machine, available on concessional price for Rs.40000, even if the machine was to be used after 4 years. From the 5^{th} to 10^{th} year, the use of machine will give an annual inflow of Rs.15000 per year. The interest rate on funds borrowed for the purchase of machine is 10%. Find out the present value of deferred annuity.

SECTION – B

ANSWER ANY THREE QUESTIONS. EACH ANSWER SHOULD NOT EXCEED 1200 WORDS. (3 x 20 = 60)

8. Discuss various goals of financial management. Explain in this regard the issues to be addressed by a Finance Manager.

9. What is cash management? Discuss the motives behind holding cash. What factors affect level of cash and explain the objectives of cash management.

10. What are the essentials of capital budgeting? Explain the importance of capital budgeting in modern organizations.

11. A firm is considering two investment projects A and B. These two projects are mutually exclusive and involve an investment of Rs.14000 and Rs.16000 respectively. The firm's overall cost of capital is 15% and the risk free rate of interest on long term government bond is 8%. The estimated net cash inflows and certain net cash inflow worked out by the management are given below. You are required to adjust for risks inherent in cash inflows, evaluate the projects and advise the management of firm on selection of the project.

Year	Project A life = 5 years		Project B life = 5 years	
	Estimated net cash flows [Rs.]	Certain net cash flow [Rs.]	Estimated net cash flow [Rs.]	Certain net cash flow [Rs.]
1.	6,500	6,000	6,000	5,600
2.	5,000	4,400	5,600	5,100
3.	4,800	4,100	5,000	4,500
4.	3,500	2,700	4,500	4,000
5.	3,000	2,100	4,000	3,500
	22,800	19,300	25,100	22,700

12. a] Discuss the features of weighted average cost of capital

    b] A firm has the following capital structure and after tax costs for the different sources of funds used. Compute the weighted average cost of capital.

Source of funds	Amount [Rs.]	Proportion [%]	After tax cost [%]
Debt	20,00,000	20	4.50
Preference shares	10,00,000	10	9.00
Equity shares	30,00,000	30	11.00
Retained earnings	40,00,000	40	10.00
Total	1,00,00,000	100	

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