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

SUBJECT CODE:15CM/MC/PF44

B.Com. (A & F) DEGREE EXAMINATION APRIL 2018
ACCOUNTING AND FINANCE
FOURTH SEMESTER

COURSE	**:**	**MAJOR – CORE**	
PAPER	**:**	**PRINCIPLES OF 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 time value of money?
3. Define leverage.
4. A company has a choice of the following financial plans. You are required to calculate the financial leverage.
   Equity capital = Rs.2,000
   Debt = Rs. 2,000
   Operating profit (EBIT) = Rs. 400
   Interest @ 10% on debt in all cases.

5. 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.
6. What is retained earnings?
7. A project costs Rs. 20,00,000 and yields annually a profit of Rs. 3,00,000 after depreciation @ 12½% but before tax at 50%. Calculate The pay-back period.
8. 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

9. What is net working capital?
10. 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.

Section B

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

11. Explain the scope of financial management.

12. The following particulars are given about two machines producing identical products.

	A	B
Original cost – ‘0’ year	`1,00,000	`1,50,000
Working life	5 years	5 years
Profit before dep. & tax		
Years	`	`
1	30,000	40,000
2	15,000	45,000
3	40,000	50,000
4	40,000	24,000
5	35,000	71,000

Tax rate: 50%Calculate the ARR on average investment.

13. 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?

14. Discuss the various alternative investment proposals.

15. A company has two alternative proposals. The details are as follows:

	Proposal I Automatic Machine	Proposal II Ordinary Machine
Cost of the machine	Rs. 2,20,000	Rs. 60,000
Estimated life	5½ years	8 years
Estimated sales p.a.	Rs. 1,50,000	Rs. 1,50,000
Costs : Material	50,000	50,000
Labour	12,000	60,000
Variable Overheads	24,000	20,000

Compute the profitability of the proposals under the return on investment method.

16. A and B who want to buy a business seek you advice about the average working capital requirements in the first year/s trading. The following estimates are available and you are asked to add 10% to allow for contingencies.

Average amount locked up in stocks:	Rs.
Stock of finished products and work in progress 5,000	5,000
Stock of stores, materials etc.	8,000
Average credit given	
Local sales- 2 weeks credit	78,000
Outside the state – 6 weeks credit	3,12,000
Time available for payment	
For purchases- 4 weeks	96,000
for wages – 2 weeks	2,60,000

Calculate the average amount of working capital; required. Give details of your working.

17. Explain the significance of time value of money.

Section C

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

18. Discuss the role of a financial manager in detail.

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 10% 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. 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?

21. 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

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