STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2015 – 16 and thereafter)
SUBJECT CODE: 15CM/PC/FM24

M.Com. DEGREE EXAMINATION APRIL 2018
COMMERCE
SECOND SEMESTER

COURSE : CORE
PAPER : FINANCIAL MANAGEMENT AND POLICY
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION – A

ANSWER ANY SIX QUESTIONS: (6 x 10 = 60)

1. Define financial management. Explain the objectives of financial management.
2. What is an optimum capital structure? Explain its essential features.
3. What do you mean by dividend? Discuss the different types of dividend.
4. A choice to be made between two projects which requires an equal investment of Rs.50,000 and are expected to generate net cash flows as under:

Particulars	Project I Rs.	Project II Rs.
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	NIL	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of the capital is 10%. Present value is Year:

	1	2	3	4	5	6
P.V.factor @ 10%.	0.909	0.826	0.751	0.683	0.621	0.564

You are required to evaluate the project according to each of the following methods:
(a) Payback period.
(b) NPV method taking cost of capital as 10%

5. Dewey Ltd. has an EBIT of Rs.4,50,000. The cost of the Debt is 10% and the outstanding debt is Rs.12,00,000. The overall capitalization rate (Ko) is 15%. Calculate the total value of the firm and equity capitalization rate under NOI approach.

6. Calculate the cost of capital in the following cases:
(i) X Ltd. issues 12% debentures of face value Rs. 100 each and realizes Rs.95 per debenture. The debentures are redeemable after 10 years at a premium of 10%.
(ii) Y Ltd. issues preference shares of face value Rs. 100 each carrying 14% dividend and he realizes Rs. 92 per share. The shares are repayable after 12 years at par.
Note: Both companies are paying income tax at 50%.

7. Following are the details regarding two companies.

A Ltd	B Ltd
R = 15%	r =8 %
Ke = 10%	ke=10%
E = Rs.10	E = Rs.10

Calculate the value of equity shares of each of these companies under Walters approach when dividend pay – out ratio is (a) 0% (b) 20% (c) 50% (d) 100%.

8. From the following project details, calculate the sensitivity of the (a) Project cost (b) Annual cash flow (c) cost of capital. Which variable is the most sensitive?
   Project cost Rs.12,000
   Annual cash inflow Rs.4,500
   Cost of capital 14%
   Life of the project 4 years
   Annuity factor at 14% for 4 years is 2.9137 and 18% for 4 years is 2.6667.

SECTION – B

ANSWER ANY TWO QUESTIONS: (2 x 20 = 40)

9. What are the various functions of a finance manager?
10. What are the factors which affect the dividend policy of a company?

11. The existing capital structure of Risk ltd. is as follows:

	Rs.
Equity share of Rs.100 each	25,00,000
Retained earnings	15,00,000
10% Preference shares	20,00,000
8% Debentures	20,00,000

Company earns a return of 15% and the tax on income is 35%. Company wants to raise Rs.18,00,000 for its expansion project for which it is considering following alternatives:

i. Issue 14,400 equity shares at a premium of Rs.25 per share
ii. Issue of 11% Preference shares
iii. Issue of 10 % Debentures

Projected that the P/E ratios in the case of equity, preference shares and debentures financing would be 15, 12, and 10 respectively. Which alternative would you consider to be the best? Give reasons for your choice.

12. A limited company has the following capital structure:

Equity share capital (4,00,000 shares)	Rs.40,00,000.
6% Preference shares	Rs.10,00,000.
8% Debentures	Rs.30,00,000.

The market price of the company's equity shares is Rs.20. It is expected that company will pay a current dividend of Rs.2 per share which grow at 7% for ever. The tax rate may be presumed at 50 percent. You are required to compute a weighted average cost of capital.