**STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.**
**(For candidates admitted during the academic year 2015-16 and thereafter)**
**SUBJECT CODE: 15CM/MC/FM44**

**B.Com. / B.Com (CS)DEGREE EXAMINATION APRIL 2019**
**COMMERCE / CORPORATE SECRETARYSHIP**
**FOURTH SEMESTER**

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

## Section A

**Answer ALLthe questions.** **(10 x 2 = 20)**

1. What is Profit Maximisation Principle?
2. What do you mean by Retained Earnings?
3. Define Financial Management.
4. What is Net Present value?
5. What is Risk and Return tradeoff?
6. You deposit Rs. 1,000 annually in a bank for 5 year and your deposits earn a compound interest rate of 10%. What will be the value of series of deposits at the end of 5 years?
7. A project requires an investment of Rs.5, 00,000 and has a scrap value of Rs.20, 000 After 5 years. It is expected to yield profits after depreciation and taxes during the 5 years amounting to Rs. 40,000. Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs.20, 000. Calculate the average rate of return on the investment.
8. The shares of a company are selling at Rs. 40 per share and it had paid a dividend of Rs. 4 per share last year. The investor's market expects a growth rate of 5% per year. Compute the company's equity cost of capital.
9. Project cost is Rs. 30,000 and the cash inflows are Rs. 10,000, the life of the project is 5 years. Calculate the pay-back period.
10. A firm's Ke (return available to shareholders) is 10%, the average tax rate of shareholders is 30% and it is expected that 2% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings?

## Section B

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

11. Explain the Objectives of Financial management?
12. Discuss the determinants of Working Capital?
13. ABC Ltd. issues 20,000, 8% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued (a) at par, (b) at a premium of 10% and (c) at a discount of 6%.
14. A company has on its books the following amounts and specific costs of each type of capital.

| Type of Capital | Book Value | Market Value | Specific Costs (%) |
|---|---|---|---|
| Debt | 4,00,000 | 3,80,000 | 5 |
| Preference | 1,00,000 | 1,10,000 | 8 |
| Equity | 6,00,000 | 9,00,000 | 15 |
| Retained Earnings | 2,00,000 | 3,00,000 | 13 |
| | 13,00,000 | 16,90,000 | |

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

15. From the following particulars, compute: Payback period, NPV and profitability index.
    (a) Cash outflow Rs. 1,00,000
    (b) Annual cash inflow Rs. 25,000 (After tax before depreciation)
    (c) Estimate Life 6 years Solution

16. Prepare an estimate of working capital requirement from the following information's of a trading concern.
    Projected annual sales Rs. 6,50,000
    Percentage of net profit on sales 25%
    Average credit period allowed to debtors 10 Weeks
    Average credit period allowed by creditors 4 Weeks
    Average stock holding in terms of sales requirements 8 Weeks
    Allow 20% for contingencies

17. i) A finance company advertises that it will pay a lump sum of Rs.44,650 at the end of five yearsto investors who deposit annually Rs.6,000 for 5 years. What is the interest rate implicit in thisoffer?
    ii)Mohit deposits Rs.2, 00, 000 in a bank account which pays 10 per cent interest. How much canhe withdraw annually for a period of 15 years?

**Section C**

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

18. The expected cash flows of a project are as follows:

| Year | Cash flow |
|---|---|
| 0 | -100,000 |
| 1 | 20,000 |
| 2 | 30,000 |
| 3 | 40,000 |
| 4 | 50,000 |
| 5 | 30,000 |

The cost of capital is 12 percent. Calculate the following: (i) Net Present Value, (ii) Internal Rate of Return, (iii) Payback period, and (iv) Discounted Payback period.

19. The capital structure of Kirloskar Ltd. in book value terms.
    Equity capital and Retained Earnings (20 lakh shares, Rs.100 par)
    Preference capital, 12 percent (5,00,000 shares, Rs.100 par)
    Debentures 14 percent (12,00,000 debentures, Rs.100 par)
    Term loans, 13 percent is as follows:
    Rs.200 Lakh
    Rs.50 Lakh
    Rs.350 Lakh
    Rs.120 Lakh
    Rs.80 Lakh
    Rs.800 Lakh
    The next expected dividend per share is Rs.2.00. The dividend per share is expected to growat the rate of 12 percent. The market price per share is Rs.50.00.
    Preference stock redeemableafter 10 years, is currently selling for Rs.85.00 per share.
    Debentures, redeemable after 5 years for Rs.90.00 per debenture. The tax rate for the company is 30 percent. Calculate the Average cost of capital.

20. The following information is extracted from the books of a manufacturing company,

| | Cost per unit (Rs.) |
|---|---|
| Raw materials | 50 |
| Direct Labour | 20 |
| Overheads (including depreciation) | 40 |
| Total cost | 110 |
| Profit | 20 |
| Selling price | 130 |

Additional information:

i. Average raw materialsin stock is for one month
ii. Average material inprogress is for half a month
iii. Credit allowed by suppliers is one month
iv. Average time lag in payment of wages is 10 days
v. Average time lag in overheads is 30 days
vi. Cash sales is 25% of total sales
vii. Cash balance expected is Rs. 1,00,000
viii. Finished goods lie in the ware house for one month
ix. Provide 10% safetymargin.
x. Assume 360 days in a year.
Production is evenly carried throughout the year and wages and overheads accrue similarly.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 54,000 units of output.

21. From the following information, calculate the Net Present Value of the two project and suggest which of the two projects should be accepted a discount rate of the two.

| | Project X | Project Y |
|---|---|---|
| Initial Investment | Rs. 20,000 | Rs. 30,000 |
| Estimated Life | 5 years | 5 years |
| Scrap Value | Rs. 1,000 | Rs. 2,000 |

The profits before depreciation and after taxation (cash flows) are as follows:

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|
| Project X 5,000 | 10,000 | 10,000 | 3,000 | 2,000 |
| Project Y 20,000 | 10,000 | 5,000 | 3,000 | 2,000 |

The following are the present value factors @ 10% p.a.

| Year | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Factor | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 |

*******