LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **CORPORATE SECRETARYSHIP**

SIXTHSEMESTER – APRIL 2017

BC 6604- FINANCIAL MANAGEMENT

Date: 20-04-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

Section A

Answer all the Questions: (10 X 2 =20 marks)

1) What are the basic objectives of financial management?
2) What are the disciplines closely related to finance ?
3) What is financial planning?
4) What is optimum capital structure?
5) State the components of cost of capital.
6) A company's share is quoted in the market at Rs.40 currently. The company pays a dividend of Re. 2 per share and the investors expect a growth rate of 5% per year. Compute the company's Cost of equity capital.
7) A project has an initial investment of Rs.2, 00,000. It will produce cash inflows after tax of Rs.50, 000 per annum for six years. Compute the payback period for the project.
8) Define working capital.
9) The rate of return available to the equity shareholders in the Eva ltd. Is 20% and the personal tax rate applicable to shareholders is 22%. It is expected that the shareholders will have to bear a brokerage cost of 3% when they invest their dividends in alternative securities. Compute the cost of retained earnings.
10) What is Redeemable cost of dept?

Section B

Answer any Four Questions: **(4X10 =40 marks)**

11) Describe the various determinants of working capital.
12) Explain the features of optimum capital structure.
13) Explain the process of capital budgeting.
14) Excel Industrial Ltd. has assets of Rs.1, 60,000 which has been financed with Rs.52,000 of debt and Rs.90,000 of equity and a general reserve of Rs.18,000. The firm's total profits after interest and taxes for the year ended 31^{st} March 2007 were Rs.13, 500. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs.100 each selling at a market price of Rs.120 per share. What is the weighted average cost of capital?
15) From the following information extracted from the books of a manufacturing company, compute the operating cycle in days: Period covered: 365 days

Average period of credit allowed by suppliers: 16 days

Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of Average stock maintained:	
Raw materials	3,20,000
Work-in-progress	3,50,000
Finished goods	2,60,000

16) Asin Ltd. Issued 15,000 12% preference shares of Rs.100, redeemable at 10% premium after 20 years. The floating costs were 5%. Find out the cost of preference capital of shares are issued at a) Par b) at Premium 5% and at a c) discount 10%.

17) Ace ltd., has a share capital of Rs.1, 00,000 divided into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50, 000.

1. Issue of 10% debentures
2. Issue of 5,000, 12% preference shares of Rs.10 each.
3. Issue of 5,000 eqshares of Rs.10 each

4.The earnings before interest and taxes (EBIT) are Rs.30, 000 p.a.

Calculate the effect on earnings per share assuming EBIT continues to be the same even after the capital expenditure.

Section C

Answer any TWO questions: (2 X 20 = 40 marks)

18) Discuss the factors determining the capital structure.

19) Discuss the different sources of finance.

20) Anbu Co. Ltd., is considering the purchase of a new machine. Two alternative machines (X and Y) have been suggested each costing Rs. 4, 00,000. Earnings after taxation are expected to be as follows:

Year	Cash flow	
	Machine X Rs.	Machine Y Rs.
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company has a target rate of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative is preferable. The present value of Re. 1 (to be received at the end of each year).

Year	1	2	3	4	5
PV0.909	0.826	0.751	0.683	0.621	

21) From the following capital structure of a company, compute the overall cost of capital using i) Book value weights and ii) Market value weights.

	Book value Rs.	Market value Rs.
Equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:

Equity share capital : 14%

Retained earnings : 13%

Preference share capital : 10%

Debentures : 5%

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