LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com.DEGREE EXAMINATION – **COMMERCE**

SIXTH SEMESTER – **APRIL 2019**

16UCO6MC03– FINANCIAL MANAGEMENT

Date: 05-04-2019 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION - A (10 X 2 = 20 MARKS)
(Answer All Questions)

1. Define Financial Management.

2. What are the sources of finance?

3. Define Capital Structure.

4. Define Cost of Capital.

5. M Ltd. issued Rs. 8,00,000 8% Debentures at a discount of 5%. The flotation costs are 4%. Assuming tax rate of 40%. Compute cost of debt before tax .

6. The market price of an equity share of X Ltd. is Rs. 120. The expected equity dividend is Rs. 2.40 per share. The shareholders anticipate a growth of 10% in dividends. You are required to calculate cost of equity capital.

7. Define Dividend Policy.

8. The earnings per share of Wick Ltd. are Rs. 15. The rate of capitalization is 12% and the rate of return on investment is 18%. Compute the market price per share using Walter's formula if the dividend payout is 60%.

9. What is Working Capital?

10. Kamath Ltd. is engaged in customer retailing. You are required to forecast its working capital requirements from the following information.

Projected annual sales	Rs. 6,50,000
Percentage of net profit on cost of sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks

Add 20% to allow for contingencies

SECTION - B (4X10= 40 MARKS)
(Answer Any Four Questions)

11. Briefly describe the objectives of Financial Management.

12. Explain the need for capital budgeting.

13. Shah Ltd. has the following capital structure:

	Rs.
25,000 Equity share of Rs. 10 each	2,50,000
2,000 9% Preference shares of Rs. 100 each	2,00,000
3,000 10% Debentures of Rs. 100 each	3,00,000

The company's EBIT is Rs. 1,25,000. Calculate the financial leverage assuming that the company is in 40% tax bracket.

14. Following are the details regarding three companies.

	A Ltd.	B Ltd.	C Ltd.
r	15%	10%	8%
K_e	10%	10%	10%
E	Rs. 10	Rs. 10	Rs. 10

Calculate the value of an equity share of each of these companies applying Walter's formula when dividend payment ratio is 40% and 80%.

15. Dewey Ltd. has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalization rate (k_0) is 15%. Calculate the total value of the firm and equity capitalization rate under NOI approach.

16. Following information is available with regards to the capital structure of E Ltd.

	Amount (Rs.)	After tax cost of capital %
Debentures	12,00,000	5%
Preference share capital	4,00,000	10%
Equity share capital	8,00,000	15%
Retained earnings	16,00,000	12%

You are required to calculate weighted average cost of capital (WACC).

17. The following information is available in respect of Amla Ltd.
Stock holding: Raw materials: 1 month; Work-in-progress: 15 days; Finished goods: 1 month.
Debtors collection period: 2 months
Time lag in payment of bills: 45 days
Calculate:
a) Operating cycle
b) Number of operating cycles in a year assuming a 360 day year
c) Average working capital required, if annual cash operating expenses are Rs. 180 lakh.

SECTION - C (2 X 20 = 40 MARKS)
(Answer Any TWO Questions)

18. Describe the functions of a finance manager.

19. A company's capital structure consists of the following:

Particulars	Amount (Rs.)
Equity Shares of Rs.100 each	20,00,000
Retained Earnings	10,00,000
9% Preference Shares	12,00,000
7% Debentures	8,00,000
Total	50,00,000

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs.25,00,000 to finance its expansion programme for which the following alternatives are available to it:

a. Issue of 20,000 equity shares at a premium of Rs.25 per share;
b. Issue of 10% preference share;
c. Issue of 8% debentures.

It is estimated that the price earnings ratios in the case of Equity, Preference and Debenture financing would be 21.4, 17 and 15.7 respectively. Which of the three financing alternatives would you recommend and why?

20. A company is considering purchasing a machine. Two machines A and B are available each costing Rs.5,00,000. In comparing the profitability of machine, a discount rate of 10% is to be used. Cash flows after taxation are expected to be as follows:

Year	Cash Flows (Rs.)		PV Factor @ 10% for Re.1
	Machine A	Machine B	
1	1,50,000	50,000	0.9091
2	2,00,000	1,50,000	0.8264
3	2,50,000	2,00,000	0.7513
4	1,50,000	3,00,000	0.6830
5	1,00,000	2,00,000	0.6209

You are required to indicate which of the machines would be profitable using the flowing methods of ranking investment proposals:

a. Pay Back Method;
b. Net Present Value Method;
c. Return on Investment Method;
d. Profitability Index.

21. X Co. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figures to allow for contingencies.

		Figure for the year
i)	Average amount locked up in stocks:	Rs.
	Stock of finished goods	5,000
	Stock of stores and materials	8,000
ii)	Average credit given:	
	Inland sales – 6 weeks	3,12,000
	Export sales – 1 ½ weeks	78,000
iii)	Lag in payment of wages and other outgoings:	
	Wages – 1 ½ weeks	2,60,000
	Stores, materials etc. – 1 ½ months	48,000
	Rent, royalties etc. – 6 months	10,000
	Clerical staff salary – ½ month	62,400
	Manager salary – ½ month	4,800
	Miscellaneous expenses – 1 ½ months	48,000
iv)	Payment in advance:	
	Sundry expenses (paid quarterly in advance)	8,000
v)	Undrawn profits on the average throughout the year	11,000

Set up your calculations for the average amount of working capital required.

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