LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FOURTH SEMESTER – **APRIL 2022**

UBC 4501 – FINANCIAL MANAGEMENT

Date: 16-06-2022 Dept. No. Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

PART-A

Q.No **Answer ALL Questions** **10X2=20 Marks**

1	What are the basic objectives of Financial Management?
2	What do you mean by Financial Management?
3	A project has an initial investment of Rs.2,50,000. It will produce cash flows after tax of Rs.50,000 per annum for 8 years. Compute the payback period for the project.
4	What is capital budgeting?
5	Write a brief note on cost of capital?
6	A company limited issued 10% debentures of Rs.5,00,000 at par. Compute the cost of capital if the applicable tax rate on the company is 50%.
7	Define capital budgeting?
8	The cost of plant is Rs.5,00, 000.It has an estimated life of 5 years after which it would be disposed off (scrap value is nil). Earnings before depreciation, interest and taxes (EBIT) is estimated to be Rs.1,75,000 p.a. Find out cash flow from the plant. Tax rate 30%.
9	What are the four main components of working capital?
10	Write down the steps involved in the determination of the operating cycle?

PART-B

Answer any FOUR Questions **4X10=40 Marks**

11. Explain the objectives of Financial Management?

12 The existing capital structure of Risk Ltd is as follows

Equity shares of Rs.100 each Rs.25,00,000

Retained earnings Rs.15,00,000

10% Preference shares Rs.20,00,000

8% Debentures Rs.20,00,000

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

i. Issue of 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 Price Earnings(P/E) ratio 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.

13 X Company Limited issued 12% debentures of Rs.2,00,000, face value of the debentures is Rs. 100.Compute cost of debenture before and after tax if.

(a) Issued at par, tax rate is 20%

(b) Issued at 10% premium, tax rate is 30%

(c) Issued at 10 % discount, tax rate is 40%

14 A company has to choose one of two alternative machines. Calculate the pay back period and suggest the profitable machine.

Machine	Raja	Nataraja
Cost of Machine (Rs)	2,00,000	2,00,000
Working life (years)	5	5
Profits before depreciation and tax		
I Year	60,000	80,000
II Year	70,000	1,00,000
III Year	80,000	80,000
IV Year	60,000	70,000
V Year	40,000	60,000
Rate of income tax	50%	50%

15 From the following information, prepare a statement showing the estimated working capital requirements:

Budgeted sales-Rs.2,60,000 p.a

Analysis of cost and profit of each unit

Raw material-Rs.3

Labour-Rs.4

Overheads-Rs.2

Profit-Rs.1

Selling price per unit-Rs.10

It is estimated that

(a) Pending use, raw materials are carried in stock 3 weeks and finished goods for 2 weeks.

(b) Factory processing will take 3 weeks.

(c) Suppliers will give 5 weeks credit and customers will require 8 weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

16 The following projections have been given in respect of companies X and Y.

Particulars	Company-X	Company-Y
Volume of output & Sales	80,000 units	1,00,000 units
Variable cost per unit	Rs.4	Rs.3
Fixed cost	Rs.2,40,000	Rs.2,50,000
Interest burden on debt	Rs.1,20,000	Rs.50,000
Selling price per unit	Rs.10	Rs.8

On the basis of the above information, calculate (a) Operating leverage, (b) Financial leverage and (c) Combined leverage.

17 A Brief note on (a) Pay back Period method (b) Accounting or Average Rate of Return method (c) Net Present Value Method (d) Internal Rate of Return method and (e) Profitability Index (PI) Method.

PART-C

Answer any TWO questions **2x20=40 Marks**

18 The ZBB Ltd needs Rs.5,00,000 for construction of a new plant. The following three financial plans are feasible.

(i) The company may issue 50,000 equity shares at Rs.10 per share

(ii) The company may issue 25,000 equity shares at Rs.10 per share and 2,500 debentures of Rs.100 each bearing 8% rate of interest.

(iii) The company may issue 25,000 equity shares at Rs.10 per share and 2,500 preference shares at Rs.100 per share bearing 8% rate of interest.

If the company's earnings before interest and taxes are Rs.10,000, Rs.20,000, Rs.40,000, Rs.60,000, Rs.1,00,000, what are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax rate to be 50%.

19 A) It is proposed to introduce a new machine to increase the production capacity of department X. Two machines are available. Type 'A' and Type 'B. The following information is available:

Particulars	A (Rs)	B (Rs)
Cost of machine	3,50,000	6,30,000
Estimated life	7	10
Estimated savings in scrap p.a	20,000	32,000
Additional cost of Indirect material p.a	10,000	16,000
Estimated savings in wages:		
Employees not required	15	20
Wages per employee per annum	10,000	16,000
Additional cost of maintenance p.a	7,200	12,000
Additional cost of supervision p.a	24,000	36,000

The rate of taxation can be regarded as 50% of profits. Which machine can be recommended for purchase?

B) Compute ARR from the following data:

Cost of asset: Rs.4,00,000

Useful life: 5 Years

Cash flow after tax (CFAT) Rs.1,72,000 p.a

20 Asin Ltd issued 15,000 12% preference shares of Rs.100, redeemable at 10% premium after 20 years. The floatation cost was 5%. Find out the cost of preference share capital if shares are issued (a) at par; (b) at a premium of 5% and (c) at a discount of 10%.

21 Explain in detail the determinants of working capital requirements?

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