LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **NOVEMBER 2018**

16UBC5ES01– FINANCIAL MANAGEMENT

Date: 30-10-2018 Dept. No. Max. : 100 Marks

Time: 09:00-12:00

Section – A

Answer ALL the questions **(10X2=20)**

1) What is Financial Management?
2) Define cost of capital
3) State any two functions of financial management
4) Write about the significance of cost of capital
5) Define the term capital structure.
6) What do you mean by retained earnings?
7) Write a note about over capitalistion
8) Define capital budgeting.
9) Define leverage.
10) State the meaning of financial leverage.

Section – B

Answer any FOUR questions **(4X10=40)**

11) A company has currently an ordinary share capital of Rs. 25 Lakh, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 Lakh to finance a major programme of expansion through one of three possible financing plans. The options are as under:
    a) Entirely through ordinary shares
    b) Rs.10 Lakh through ordinary shares and Rs.10 lakh through long term borrowings at 15% interest per annum.
    c) Rs. 5 Lakh through ordinary shares and Rs.15 Lakh through long term borrowing at 16% interest per annum.

    The company's expected EBIT will be Rs. 8 lakh. Assuming a corporate tax rate of 50% determine the EPS in each alternative and suggest the best alternative.

12) The following is the capital structure of a firm.

Sources of finance	Amount (Rs)	C/C
11% preference shares	1,00,000	11%
Equity share capital	4,50,000	18%
Retained earnings	1,50,000	18%
16% Debt	3,00,000	8%

Calculate the weighted average cost of capital of the firm, based on the book value weights.

13) Taylor ltd has an average selling price of Rs.10 per unit. Its variable cost is Rs.7 and fixed cost amounts to Rs. 3,40,000. It finances all its assets by equity funds. It pays 50% tax on its income. Bhatia ltd is identical to taylor ltd except in respect of the pattern of financing. The latter finances its assets by 50% by equity and 50% by debt, the interest on which amounts to Rs. 40,000. Determine the operating, financial and combined leverages at Rs. 14,00,000 sales for both the firms.

14) Dio 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 capitalisation rate(K_o) is 15%. Calculate the total value of the firm and equity capitalisation rate under NOI approach.

15) Project 'M' initially costs Rs.50,000. It generates the following cash flows.

Year	Cash Inflow	Present value of Re.1 at 10%
1	18,000	0.909
2	16,000	0.826
3	14,000	0.751
4	12,000	0.683
5	10,000	0.621

Taking the Cut-off rate as 10%, suggest whether the project should be accepted or not.

16) Explain the factors determining capital structure.

17) Enumerate the objectives of financial management.

Section – C

Answer any TWO questions **(2X20=40)**

18) ABC ltd has the following capital structure:

	Rs in Lakh
Ordinary shares- 10 lakh Nos. @ Rs. 10 each	100
Reserves and surplus	40
10% Debentures each of face value of Rs. 100	60

The company needs Rs. 50 Lakh to execute a new project which will raise its operating profit (EBIT) from the current level of Rs.40 lakh to Rs.55 Lakh. It is considering the following options:

I) Issue equity shares at a premium of Rs.15 each for the entire amount

II) Issue 12% debentures for Rs. 50 Lakh required additionally

III) Issue equity shares for Rs. 25 lakh at a premium of Rs.20

The company's tax rate is 40%. Evaluate the EPS in three options and advice the company.

19) X ltd issued 20,000 – 7% debentures of Rs.100 each at a premium of 5% and redeemable at par. The maturity period is 5 years and the tax rate is 40%. Calculate the cost of debentures before and after tax rate.

20) A company has to choose one of the following two mutually exclusive projects. Investment required for each project is Rs. 1,50,000. Both the projects have to be depreciated on straight line basis. The tax rate is 50%.

Year	**Profit before depreciation**	
	Project X (Rs)	**Project Y (Rs)**
1	42,000	42,000
2	48,000	45,000
3	70,000	40,000
4	70,000	50,000
5	20,000	1,00,000

Calculate payback period.

21) Explain the sources of finance – Short term finances.

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