LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.COM. DEGREE EXAMINATION – **COMMERCE**

SIXTH SEMESTER – **APRIL 2015**

CO 6604 – FINANCIAL MANAGEMENT

Date : 27/04/2015 Dept. No. Max. : 100 Marks
Time : 09:00-12:00

PART – A

Answer ALL the questions: **(10x2=20 marks)**

1. Define Financial Management.
2. State any two Limitations of Equity Financing.
3. What do you mean by Bridge Financing?
4. Mention the factors determining 'Cost of Capital'.
5. Tulsian Limited issued Rs.100 Lakhs 12% Debentures of Rs.100 each, redeemable at a premium of 5% after 5 years. Calculate the cost of debt, when the corporate tax rate is 40%.
6. What is Capital Rationing?
7. What do you mean by Profitability Index?
8. What is Gross working capital?
9. The market price of an equity share of a company is Rs.80, and the dividend expected a year hence is Rs.1.60 per share. The shareholders anticipate a growth of 7% in dividends. Calculate the cost of equity capital.
10. The data relate to TRS Ltd., calculate combined leverage.
    EBIT- Rs.10,00,000;
    Fixed Cost- Rs.20,00,000;
    Earnings Before Tax- Rs.8,00,000.

PART – B

Answer any FOUR questions: **(4 x 10 = 40 marks)**

11. Discuss the role of Finance Manager in an organisation.
12. Why are debentures issued? Briefly discuss the characteristics of the same.
13. Discuss the significance of working capital.
14. From the following information, calculate the present value of cash outflow.
    - Purchase price of the new machinery- Rs.10,00,000;
    - Installation Expenses- Rs.1,50,000;
    - Worker's Training Expenses incurred, to put the asset into use – Rs.50,000;
    - Subsidy received from Government at the end of 1st year 60% of purchase price;
    - Working Capital – Rs.3,00,000;
    - Cost of Capital- Rs. 10%.

15. A company is considering two mutually exclusive projects it should undertake. The Finance Director thinks that the project with the higher NPV should be chosen whereas the Managing Director thinks that the higher IRR should be undertaken especially as both projects have the same initial outlay and the length of life. The company anticipates cost of capital of 10% and the net after tax cash flows of the projects are as follows:

Year	**0**	**1**	**2**	**3**	**4**	**5**
(Cash flows figs. 000) **Project- x**	**(200)**	**35**	**80**	**90**	**75**	**20**
Project-y	**(200)**	**218**	**10**	**10**	**4**	**3**
Discount Factor- 10%	**1**	**0.91**	**0.83**	**0.75**	**0.68**	**0.62**
Discount Factor- 20%	**1**	**0.83**	**0.69**	**0.58**	**0.48**	**0.41**

Calculate the NPV and IRR for each project. State with reasons, the project you would recommend.

16. Compute the working capital requirements from the following information.
    - Projected annual sales- Rs.6,50,000;
    - % of N.P. to cost of sales- 25%;
    - Average Credit allowed to debtors- 10 weeks;
    - Average credit allowed by creditors-4 weeks;
    - Average stock carrying (based on sales)- 8 weeks;
    - Add 20% to allow for contingencies.

17. The balance sheet of a company is as follows:

LIABILITIES	**AMOUNT**	**ASSETS**	**AMOUNT**
Equity Shares of RS.10 each	**60,000**	**Net Fixed Assets**	**1,50,000**
10% Long Term Debt	**80,000**	**Current Assets**	**50,000**
Retained Earnings	**20,000**		
Current Liabilities	**40,000**		
	2,00,000		**2,00,000**

- The company's total Assets turnover ratio is 3 times. Its fixed operating costs are Rs.1,00,000 and its variable operating Cost ratio is 40%. The Income Tax rate is 40%. Calculate all Leverages from the above particulars.

PART-C

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

18. What do you mean by optimum capital structure? Discuss the internal and external factors influencing capital structure of an organisation.

19. The following is the capital structure of a company:

Equity Shares: 10,000 shares of Rs.100 each	- Rs.10,00,000
10% Preference Shares of Rs.100 each	- Rs. 4,00,000
12% Debentures	- Rs. 6,00,000
	Rs. 20,00,000

The market price of the company's share is Rs.110 and it is expected that a dividend of Rs.10 per share would be declared for the year. The dividend growth rate is 6%.

- If the company is in the Tax bracket of 50%, compute the Weighted Average Cost of Capital.
- Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs.10 lakh bearing 14% rate of interest, what will be the company's revised Weighted Average Cost of Capital? This financing decision is expected to increase divided from Rs.10 to Rs.12 per share. However, the Market price per equity share is expected to decline from Rs.110 to Rs.105 per share.

20. Trinity Limited needs 12 Lakhs for establishment of a new factory which would yield an annual EBIT of Rs.2 Lakhs. The company is considering the possibility of issuing equity shares plus raising a debt of Rs.2 Lakhs, 6 Lakhs or10 Lakhs.
The current market price per share is Rs.40.It is expected to drop to Rs.25 if the market borrowings exceed Rs.7, 50,000. Cost of borrowing will be as follows:
Up to Rs.2, 50,000 -10% p.a.
Between 2, 50,001 – Rs.6, 25,000- 14%p.a.
Between 6, 25,001- Rs.10, 00,000- 16% p.a.
Assuming a tax rate of 40%, calculate the EPS. Recommend the plan that meets the requirement of the management.

21. You are supplied with the following information in respect of XYZ Ltd. for the ensuing year:

• Production for the year	69,000 units
• Finished goods in store	3 months
• Raw material in store	2 months' consumption
• Production process	1 months
• Credit allowed by creditors	2 months
• Credit given by debtors	3 months
• Selling price per unit	Rs.50
• Raw Material	50% of Selling Price
• Direct Wages	10% of Selling Price
• Overheads	20% of Selling Price

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of production cyle.

You are required to find out its working capital requirements.

$$$$$$