



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.COM.DEGREE EXAMINATION – COMMERCE

FOURTH SEMESTER – APRIL - 2018

CO 1014/ CO 1015 – FINANCIAL MANAGEMENT

Date: 09-05-2018
Time: 9:00 – 12:00

Dept. No.

Max. : 100 Marks

Section – A

Answer all questions:-

10 x 2 = 20

1. Explain the term 'Time Value of Money'.
2. What do you mean by Financial Management?
3. Illustrate the term 'Pay Back Period'
4. Explain the characteristics of Working Capital management?
5. What is Dividend?
6. Mention the objectives of Cash Management.
7. A company bank has offered to you an annuity of Rs.1,800 for 10 years if you invest Rs.12,000 today. What rate of return would you earn?
8. Discuss the uses of Leverage Analysis.
9. Mention the Advantages of Leasing.
10. What are the factors affecting the cost of capital.

Section – B Answer any FIVE questions: 5 x 8 = 40

11. Discuss the factors affecting the payment of Dividend.
12. Explain in detail the types of Leasing.
13. What are the determinants of Working Capital requirements?
14. Analyse the Profit Maximisation and Wealth Maximisation in detail.
15. a) Sales 1000 units @ Rs.10 per unit, variable cost Rs.4 per unit, Fixed cost Rs.2,000. Calculate the operating leverage and interpret the results.
b) EBIT is Rs. 2,000, Interest Rs. 1,000, Tax rate 50%, No of Equity share = 100. Calculate the operating leverage and interpret the results
16. There are two projects A and B. The cost of the project is Rs.30,000 in each case. The cash inflows are as under:

Year	Cash inflows	
	Project A	Project B
1	10,000	2,000
2	10,000	4,000
3	10,000	24,000

Calculate Payback period.

17. X Ltd has the following projects available for investment.

PROJECT	INVESTMENT	NPV
A	1,00,000	20,000
B	3,00,000	35,000
C	50,000	16,000
D	2,00,000	25,000
E	1,00,000	30,000

Total funds available for investment are Rs 3,00,000. Which project will you chose? If
i. Projects are divisible. ii. Projects are indivisible

18. Calculate the value of an equity shares of company X Ltd. and Y Ltd. from the following particulars by applying Walters formula when dividend payment ratio (O/P ratio) is (a)50% and (b)75%

	X Ltd.	Y Ltd.
r	= 12%	15%
Ke	= 10%	10%
E	= Rs.15	Rs.12

Section – C

Answer any TWO questions

2 x 20 = 40

19. The following are the cash inflows and outflows of a certain project.

Year	Outflows	Inflows
0	1,50,000	
1	30,000	30,000
2		30,000
3		50,000
4		60,000
5		40,000

The salvage value at the end of 5 years is Rs.40,000. Taking the cut off rate as 10%, Calculate net present value.

Year	1	2	3	4	5
P.V. factor @ 10%	0.909	0.826	0.751	0.683	0.621

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

	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%

21. A Ltd has an equity capital consisting of 5000 Equity shares of Rs 100 each. It plans to raise Rs. 300000 for the financial expansion programme and identify four options for raising funds.

1. Issue 3,000 Equity shares of Rs 100 each
2. Issue 1,000 Equity shares of Rs.100 each and 2000 8% Preference shares of Rs 100 each
3. Borrow of Rs 3,00,000 at 10% interest p.a
4. Issue 1,000 Equity shares of Rs.100 each and Rs. 2,00,000, 10% debentures

This company has EBIT of Rs 1,50,000 of its expansion. Tax rate is 50%. Suggest the source in which funds should be raised.

22. The cost sheet of PQR Ltd provides the following data.

Raw material	Rs. 50 per unit
Labour	20 per unit
OHS (including Depreciation Rs. 10)	40 per unit
Profit	Rs. 20 per unit
Selling price	Rs.130 per unit

1. Raw material is in stock 1 month. 2. WIP for ½ month. 3. Finished goods for 1 months
4. Credit allowed by suppliers 1 month. 5. Credit allowed to customers 1 month.
6. Average time lay in payment of wages = 10 days and payment of OHS 30 days
7. 25% of the sales are for cash. The cash balance of Rs. 1,00,000 is to be maintained.

Ascertain the requirement of working capital needed to finance level of activity of 54,000 units.

Production is carried on evenly throughout the year and wages and OHS accrue evenly throughout the year.

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