LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2019**

CO 6608– FINANCIAL MANAGEMENT

Date: 01-04-2019 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART – A

ANSWER ALL THE QUESTIONS: **(10 x 2 = 20 marks)**

1. Mention any two importance of Financial Management.
2. Brief about the role of Finance Manager.
3. What is operating leverage?
4. What is meant by "Financial Risk"?
5. The current market price of an equity share of a company is Rs. 90. The current dividend per share is Rs. 4.50. In case the dividends are expected to grow at the rate of 7%, calculate the cost of equity capital.
6. A company raised preference share capital of Rs. 1,00,000 by issue of 10% preference shares of Rs. 10 each. Calculate the cost of preference capital when they are issued at 10% premium.
7. What is pay-back period?
8. List out any two significance of Capital budgeting.
9. Calculate the average age of receivables:

	Rs.
Credit sales for the year 2010	60,000
Accounts receivable as on 1.1.2010	7,000
Accounts receivable as on 31.12.2010	5,000

10. A, a refrigerator manufacturer, purchases 1,600 units of a certain component from B. His annual usage is Rs. 1,600 units. The order placing cost is Rs. 100 and the cost of carrying one unit for a year is Rs. 8. Calculate the Economic Ordering Quantity.

PART – B

ANSWER ANY FOUR QUESTIONS: **(4 x 10 = 40 marks)**

11. Explain the objectives and goals of Financial Management.
12. Describe the different types of leverages.
13. A company has a choice of the following three financial plans. You are required to calculate the financial leverage in each case.

	X Rs.	Y Rs.	Z Rs.
Equity capital	2,000	1,000	3,000
Debt	2,000	3,000	1,000
Operating profit (EBIT)	400	400	400

Interest @ 10% on debt in all cases.

14. A company issues 10% irredeemable debentures of Rs. 1,00,000. The company is in the 55% tax bracket. Calculate the cost of debt (before as well as after tax) if the debentures are issued at:
    a) Par,
    b) 10% discount and
    c) 10% premium.

15. Varadhan Ltd. is producing articles mostly by manual labour and is considering to replace it by a new machine. There are two alternative models M and N of new machine. Prepare a statement of profitability showing the pay-back period from the following information.

	Machine M	Machine N
Estimated life of machine	4 years	5 years
Cost of machine	Rs. 9,000	Rs. 18,000
Estimated savings in scrap	500	800
Estimated savings in direct wages	6,000	8,000
Additional cost of maintenance	800	1,000
Addition cost of supervision	1,200	1,800

Ignore taxation.

16. From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(Rs. In ‘000)
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of average stock maintained:	
Raw material	320
Work-in-progress	350
Finished goods	260

17. From the following data, calculate (a) Safety stock, (b) Re-order Level, and (c) Maximum Level in respect of material ‘A’.

Economic Order Quantity	500 units
Lead time	3 weeks
Weekly usage	50 units
Weeks of safety stock desired by firm	2

PART – C

ANSWER ANY TWO QUESTIONS: **(2 x 20 = 40 marks)**

18. Explain the factors influencing the financial decision of finance manager.

19. From the following capital structure of a company, calculate the overall cost of capital, using (a) book value weights and (b) market value weights.

Source	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%

20. A ltd. is considering the purchase of a machine which will perform some operations which are at present performed by workers. Machines X and Y are alternative models. The following details are available:

	Machine X Rs.	Machine Y Rs.
Cost of machine	1,50,000	2,40,000
Estimated life of machine	5 years	6 years
Estimated cost of maintenance p.a.	7,000	11,000
Estimated cost of indirect material p.a.	6,000	8,000
Estimated savings in scrap p.a.	10,000	15,000
Estimated cost of supervision p.a.	12,000	16,000
Estimated savings in wages p.a.	90,000	1,20,000

Depreciation will be charged on straight line basis. The tax rate is 30%. Evaluate the alternatives according to:

(a) Average rate of return method

(b) Net Present value (c) Profitability index method assuming cost of capital being 10%.

(The present value of Re. 1.00 @ 10% p.a. for 5 years is 3.79 and for 6 years is 4.354)

21. A company's existing 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 project for which it is considering the following alternatives:

(i) Issue of 20,000 Equity Shares at a premium of Rs.25 per share;

(ii) Issue of 10% Preference Share;

(iii) Issue of 8% Debentures.

It is estimated that the Price Earnings ratios in the case of Equity, Preference shares and Debenture financing would be 21.4, 17 and 15.7 respectively. Which alternative would you consider to be the best?

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