LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2022**

16/17/18UCO6MC03 – FINANCIAL MANAGEMENT

Date: 20-06-2022 Dept. No. Max. : 100 Marks
Time: 01:00 PM - 04:00 PM

PART A

ANSWER ALL QUESTIONS: 10X2=20 MARKS

1. Define Financial Management.
2. State any two objectives of financial Management.
3. What is operating Leverage?
4. What do you understand by Capital Structure?
5. What is weighted average cost of capital?
6. What are Preference shares?
7. What are the advantages of Capital Budgeting?
8. Give the meaning of Dividend Policy.
9. Write a note on Working Capital Management.
10. Briefly explain any two long term sources of Working Capital.

PART B

ANSWER ANY FOUR QUESTIONS 4X10= 40 MARKS

11. What are the factors that affect capital structure?
12. Explain the functions of finance manager.
13. The earnings per share of a company are Rs.10. It has rate of return of 15% and the capitalization rate of risk class is 12.5%. If Walter's model is used:
    a) What should be optimum payout ratio of the firm?
    b) What would be the price of the share at this payout ratio?
14. Your company's share is quoted in the market at Rs .20 currently .The company pays dividend of Rs.1 per share and the investor's market expects growth rate of 5%per year. You are required to calculate:

a) The company's equity cost of capital

b) If the company's cost of capital is 8% and the anticipated growth rate is 5% per annum, the market price if the dividend of Rs.1 to be maintained.

15. Explain the various theories of capital structure
16. The following data pertain to Forge Ltd.
    Existing Capital Structure: 10lakh, Equity Share of Rs 10 each. Tax rate: 50%
    Forge ltd plans to raise additional capital of Rs.100 lakhs for financing an extension project. It is evaluating two alternative financing plans: i) issue of 10, 00,000 equity shares of Rs10 each, and ii) issue of Rs.100 lakh debentures carrying 14%interest.
    You are required to compute indifference of point.
17. Rose Ltd is engaged in customer retailing. You are required to estimates its working capital requirement from the following data:

Sources	Book value	Market value
Equity share Rs.10 each	45,000	90,000
Retained earnings	15,000	nil
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%

PART –C

ANSWER ANY TWO QUESTIONS **2X20=40 MARKS**

18. The existing capital structure of ABC Ltd. Is as follow:

	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

The Company earns a return of 12% and the tax on income is 50%.

Company wants to raise Rs. 25, 00,000 for its expansion project for which it is considering following alternatives:

(i) Issue of 20,000 Equity shares at a premium of Rs. 25 per share;
(ii) (ii) Issue of 10% preference shares;
(iii) (iii) Issue of 8% Debentures.
(iv) Projected that the P/E ratios in the case of equity, preference and debenture financing 21.4, 17 and 15.7 respectively.

Which alternative would you consider to be the best? Give reasons for your choice.

19. The prudent Company's most recent Balance Sheet is as follows:

Liabilities	Rs.	Assets
Equity capital (Rs. 10 per share) 10% Long-term debt Retained earnings Current liabilities	60,000 80,000 20,000 40,000 --------------- 2,00,000	Net fixed assets Current assets

The company's total assets turnover ratio based on sales Rs 4.0. Its fixed operating costs are Rs.100, 000. Its variable operating costs ratio is 40%.Income-tax rate is 40%.
You are required to: (i)Calculate all three types of Leverages,(ii) Determine likely level of EBIT of EPS is: (a) Rs1 (b) Rs, 3 and (c) Rs.0.\

20. Prepare an estimate of working capital requirement from the following information of a trading concern.

• Projected annual sales 10,000 units
• Selling price Rs. 10 per unit
• Percentage of net profit on sales 20%
• Average credit period allowed to customers 8 Weeks
• Average credit period allowed by suppliers 4 Weeks
• Average stock holding in terms of sales requirements 12 Weeks
• Allow 10% for contingencies.

21. What are the methods of capital budgeting? And explain it briefly.

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