LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2022**

UCO 6502 – FINANCIAL MANAGEMENT

Date: 17-06-2022 Dept. No. Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART- A

Answer ALL Questions: **(10 X 2 = 20)**

1. What is Financial Management?
2. What do you understand by Time value of Money?
3. What do you mean by Optimum Capital Structure?
4. What are the types of Leverages?
5. What are the components of Cost of Capital?
6. Define Cost of Debt.
7. X ltd issued 12,000 10% Debentures of Rs.100 each a par. The tax rate is 50%. Calculate before tax and after tax cost of debt.
8. A project costs Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its pay-back period.
9. From the following information, you are required to calculate debt collection period:

Total sales for the year	Rs.1,75,000
Cash sales	20% of total sales
Sales return out of credit sales	Rs.10,000
Sundry Debtors- Opening Balance	Rs.8,000
- Closing Balance	Rs.12,000

10. Define the term Working Capital.

PART- B

Answer any FOUR Questions: **(4 X 10= 40)**

11. State the significance of Financial Management.
12. Discuss the Factors affecting capital structure.
13. What is cost of capital? What are the approaches available for the cost of capital? Explain.
14. Determine the Optimum Capital Structure of a company assuming 50% corporate tax rate:

Case	Kd	Ke	B/V (Proportion of debt in capital structure)
1	6.00	8.00	0.00
2	6.00	8.00	0.10
3	6.60	9.00	0.20
4	7.00	10.00	0.30
5	8.00	11.00	0.40
6	10.00	13.00	0.50
7	13.00	16.00	0.60

15. You are required to compute overall cost of capital using (a) Book value weights (b)Market value weights:

Source	Book value	Market value	After-tax cost (%)
Equity Share Capital (Rs.10 each)	Rs.9,00,000	Rs. 18,00,000	14
Retained Earnings (Rs)	3,00,000	-	13
Pref. Share Capital (Rs)	2,00,000	2,00,000	10
Debentures (Rs)	6,00,000	6,00,000	06

16. A manufacturing company would like to invest in a new project. To alternative investments are available (A and B) each costing Rs 1,00,000. Cash inflows are expected to lie as follows:

Year	Project A (Rs.)	Project B (Rs.)
I	40000	50000
II	35000	40000
III	25000	30000
IV	20000	30000

The company has a target rate of 10% on capital. Risk premium rates are 2% and 8% respectively for investments A and B. which investment is preferable?

17. Prepare an estimate of working capital requirement from the following information of a trading concern, by allowing 10% for contingencies:

Projected annual sales	1,00,000 units
Selling Price	Rs.8 per unit
% of profit on sales	25%
Average credit period allowed to customers	8 weeks
Average credit period allowed by suppliers	4 weeks
Average stock holding in terms of sales requirement	12 weeks

PART- C

Answer any TWO Questions: (2X 20= 40)

18. Discuss the methods of forecasting working capital requirements of a firm.

19. A company is considering investing in a project requiring a capital outlay of Rs.2,00,000. Depreciation may be taken as 20% 0n original cost and taxation @ 50% of net income. Cost of capital 10%. Prepare (a) Payback period; (b) Average rate of return; (c) NPV; (d) PI. Forecast of annual income after depreciation but before tax is as follows:

Year	Rs	PVIF @ 10%
1	1,00,000	.909
2	1,00,000	.826
3	80,000	.751
4	80,000	.683
5	40,000	.621

20. The following is the Balance Sheet of X ltd., as on 31/12/2021:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Equity Share Capital (Rs.10 each)	6,00,000	Net Fixed Assets	15,00,000
10% Long Term Debt	8,00,000	Current Assets	5,00,000
Retained Earnings	2,00,000		
Current Liabilities	4,00,000		
	20,00,000		**20,00,000**

The company's total assets turnover ratio is 1.5 times. Its fixed operating costs are Rs.10 lakhs and its variable operating cost ratio is 60%. The income tax rate is 50%.

(a). Calculate for the company all the three leverages;

(b). Determine the likely EBIT, if EPS= Rs.5.

21. A proforma cost sheet of a company provides the following particulars.

Statement of cost	Amount per unit
Raw materials	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:

Raw materials are in stock on average one month

Materials are in process on average half month

Finished goods are in stock on average one month

Credit allowed by suppliers is one month.

Credit allowed to debtors is two months.

Lag in payment of wages is 2 weeks.

Lag in payment of overhead expenses is one month.

One-fourth of the output is sold against cash.

Cash in hand and at bank is expected to be Rs.25000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 104000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly. Allow 10% for contingencies.

Note:

1. Debtors and finished goods to be calculated by the total cost of sales.
2. Creditors on the cost of materials
3. WIP at any time represented by materials

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