LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2023**

UCO 6502 – FINANCIAL MANAGEMENT

Date: 03-05-2023 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

SECTION - A

Answer ALL the questions **(10 x 2 = 20)**

1. What do you mean by Capital Budgeting?

2. Mention any two objectives of Financial Management.

3. Define Cost of capital.

4. List out any two functions of a Finance Manager.

5. What do you mean by capital structure?

6. Find Combined leverage from the following

   Operating leverage 2.5

   Financial leverage 3.0

7. List any two advantages of Receivable Management.

8. Find EBIT from the following

   1) Sales = ₹50,00,000

   2) Variable Cost = 65% of Sales

   3) Fixed Cost = 20% of Sales

9. Calculate Earnings per share

   1) No. of Equity Shares 1,00,000

   2) EBIT ₹10,00,000

   3) Interest on Debentures ₹2,50,000

   4) Tax liability ₹2,50,000

10) The risk free rate of return is 8%. The return on market portfolio is 12%. Calculate the cost of equity shares whose beta value is 0.8 under CAPM.

PART B

Answer any Four Questions **(4 x 10 = 40)**

11) Explain the main objectives of Working Capital Management

12) Explain the various factors affecting the level of working capital of a firm

13) Calculate the Pay back period from the following:

The Initial Investment required for the below given project is ₹25,000

Year	Cash Inflow(₹)
2001	6,000
2002	9,000
2003	7,000
2004	6,000
2005	4,000

14) From the following selected operating data, determine the degree of operating leverage. Which company has the greater amount of business risk? Why?

	Company X	Company Y
Sales	₹25,00,000	₹30,00,000
Fixed Cost	₹7,50,000	₹15,00,000

Variable expenses as a percentage of sales are 50% for company X and 25% for company Y.

15) Explain the three approaches to Capital Structure decisions.

16) The Company's capital structure consist of the following:

Source After tax cost	B. Value	Market Value	
Debt	8%	3,00,000	3,00,000
Pref Capital	14%	1,00,000	1,90,000
Retained Earnings	17%	2,00,000	----------
Equity Capital	17%	3,00,000	6,40,000

Calculate weighted average COC using –

(a) Book Value as weights

(b) Market Value as weight

Assume the corporate tax rate as 50%.

17) The following information is available for Swati Ltd.

	Amount (₹.)
Average stock of raw materials and stores	2,00,000
Average work-in-progress inventory	3,00,000
Average finished goods inventory	1,80,000
Average accounts receivable	3,00,000
Average accounts payable	1,80,000
Average raw materials and stores purchased on credit and consumed per day	10,000
Average work-in-progress value of raw materials committed per day	12,500
Average cost of goods sold per day	18,000
Average sales per day	20,000

Calculate the duration of operating cycle.

PART C

Answer Any Two Questions **(2 x 20 =40)**

18) From the following information, you are required to estimate the net working capital:

	Cost per unit₹
Raw Material	₹200
Direct Labour	₹100
Overheads (excluding depreciation)	₹250
Total Cost	₹550

Estimated data for the forthcoming period is given as under:

Raw material in stock	average 6 weeks
Work-in-progress (assume 50% completion stage with full material consumption)	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 6 weeks
Cash at bank is expected to be	₹75,000
Selling price	₹800 per unit
Output	52,000 units per annum

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumptions that you might have made while computing.

19) The following data pertains to XYZ Ltd.

Particulars	Amount
Equity Share Capital (1,00,000 nos.) (Market value)	₹38,00,000
Preference Share Capital (Book value)	₹8,00, 000
Debentures	₹50,00,000

Additional Information:

(i) Equity Share Capital includes the existing 60,000 shares having current market price of ₹40 per share and the balance is net proceeds from the new issue in the current year (issue price of the share is ₹40; floatation cost per share is₹5. The projected EPS and DPS for the current year are ₹8 and ₹5 respectively.

(ii) Dividend on preference shares is 12%.

(iii) Cost of debentures (pre-tax) is 11%.

(iv) Market value of preference shares is ₹8,50,000.

(v) Corporate tax rate is 35% and dividend tax rate is 10%.

You are required to compute Weighted Average Cost of Capital (WACC) using market values as weights.

20) Calculate the payback period, accounting rate of return, net present value and internal rate of return for the following investment:

Year	Cashflow (₹)
0	(30,000)
1	4,000
2	10,000
3	20,000
4	11,000

The discount rate for discounted cashflow (DCF) calculation is 12 per cent. Accounting profits are the same as cashflow except that the initial expenditure should be depreciated over 4 years; there is no resale value at year 4.

Given DF @ 12%

0 Year	1
1 Year	0.8929
2 Year	0.7972
3 Year	0.7118
4 Year	0.6355

21) a) Explain Walter Model of Share Valuation and Dividend Policy. **(10Marks)**

b) Discuss various factors that determine the dividend policy. **(10 Marks)**

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