LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.com. DEGREE EXAMINATION – **COMMERCE**

SIXTH SEMESTER – **NOVEMBER 2013**

CO 6604 – FINANCIAL MANAGEMENT

Date : 07/11/2013 Dept. No. Max. : 100 Marks

Time : 1:00 - 4:00

PART - A

ANSWER **ALL** questions: (10X2 = 20 Marks)

1 . Define Financial Management.

2. Explain composite leverage.

3 . What is Earning Price Approach?

4 . Explain Cost of debt.

6 . A project requires investment of Rs.1,00,000 initially. It is estimated to provide annual net cash inflows of Rs.40,000 for a period of 8 years.
The company's cost of capital is 10%.
Ascertain the net present value of the project. Reference to annuity table shows present value of Re 1 for 8 years at 10% p.a. interest is Rs. 5.335.

7 . Nandha invests Rs. 20,000 at an interest rate of 10%. The interest is compounded anually.
Calculate the compound value after 5 years.

8 . A project costs Rs.1,00,000 and yields an annual cash inflow of Rs. 20,000 for 7 years.
Calculate pay back period.

9 . The capital structure and after tax cost of different sources of funds are given below:

Sources of Funds	Amount(Rs.)	Proportion to total	After tax cost %
Equity Share Capital	7,20,000	.30	15
Retained Earnings	6,00,000	.25	14
Preference Share Capital	48,00,000	.20	10
Debentures	6,00,000	.25	8

You are required to compute the weighted average cost of capital.

10. The following particulars relate to Ambuja Ltd.

	Rs.
Equity share capital 1,00,000 shares of Rs.10 each	10,00,000
Profit after tax	9,00,000
Current market price of equity share	75

Calculate the cost of equity.

PART - B

ANSWER ANY **FIVE** QUESTIONS: (5 x8 = 40 marks)

11.What are the functions of Financial Management?

12. Explain the factors which determine the capital structure of a firm.

13. What are the objectives of capital bugeting?

14. NCP Company Ltd. Has an all equity capital structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.30 lakhs to finance a programme of expansion.

Three alternative methods of financing are under consideration.

(i) Issue of 30,000 new shares of Rs.100 each

(ii) Issue of 30,000 8% debentures of Rs.100 each

(iii) Issue of 30,000 8% preference shares of Rs.100 each.

The company's expected earnings before interest and taxes (EBIT) are Rs. 10 lakhs. Determine the earnings per share in each alternative assuming a corporate tax rate of 50 per cent. Which alternative is best and why?

15. Following are the details regarding the capital structure of Sridhar & Co Ltd.

Type of Capital	Book value	Market value	Specific cost
	Rs.	Rs.	
Debentures	40,000	38,000	5%
Preference Share Capital	10,000	11,000	8%
Equity Share Capital	60,000	1,20,000	13%
Retained Earnings	20,000	--	9%
	1,30,000	1,69,000	

You are requested to determine the weighted average cost of capital using (i) book value as weights

(i) Market value as weights. Do you think there can be a situation where weighted average cost of capital would be same irrespective of the weights used.

16. An investment of Rs. 10,000 (having scrap value of Rs.500) yields the following returns:

Years	Yields (Rs.)
1	4,000
2	4,000
3	3,000
4	3,000
5	2,000

The cost of capital is 10%. Is the investment desirable? Discuss it according to net present value method assuming the P.V. factors for 1st, 2nd, 3rd, 4th and 5th years -- .909, .826, .751, .683, .621 respectively.

17. Peerless Ltd.is engaged in customer retailing. You are required to forecast their working capital requirements from the following information:

	Rs.
Projected annual sales	6,50,000
% of N.P. to cost sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms os sales requirement)	8 weeks

Add 20% to allow for contingencies.

18. Kamala's uncle wants to give Rs.3,00,000 on her 25th birthday. Today is her 16th birthday. She wants to know the following two things:

How much annual payments are to be made by him into a fund?

Alternatively how much is to be invested on the fund in lumpsum?

PART - C

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

19. Godrej Company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figures are as follows:

	Rs.
Sales	3,00,000
Materials used	1,08,000
Wages	96,000
Manufacturing expenses	1,20,000
Administrative expenses	30,000
Depreciation	12,000
Selling expenses	18,000
Income tax payable in two instalments of which One falls in the next year	30,000

Additional Information:

(a) Credit given by suppliers - 2 months
(b) Credit allowed to customers - 1 month
(c) Lag in payment of wages - ½ month
(d) Lag in payment of administrative expenses - 1 month
(e) Selling expenses are paid quarterly in advance.
(f) Raw materials and finished goods are in stock for - 1 month
(g) Cash balance estimated to be maintained at Rs.30,000

You are required to prepare a statement of working capital requirements.

20. A choice is to be made between two competing proposals which require an equal investment of Rs.50,000 and are expected to generate net cash flows as under:

	Project A	Project B
End of Year 1	Rs. 25,000	Rs. 10,000
End of Year 2	Rs. 15,000	Rs. 12,000
End of Year 3	Rs. 10,000	Rs. 18,000
End of Year 4	NIL	Rs. 25,000
End of Year 5	Rs. 12,000	Rs. 8,000
End of Year 6	Rs. 6,000	Rs. 4,000

The cost of capital of the company is 10%. The following are the present value factors at 10% p.a.

Year	1	2	3	4	5	6
P.V.Fctor @10%	0.909	0.826	0.751	0.683	0.621	0.564

Which project proposal should be chosen any why?

Evaluate the project proposals under ;

(a) Pay-back period (b) Discounted cash flow method.

21. The operating income of Hypothetical Ltd amounts to Rs. 1,86,000. It pays 35% tax on its income. Its capital structure consists of the following:

14% Debentures	Rs. 5,00,000
15% Preference shares	1,00,000
Equity shares (Rs.100 each)	4,00,000

(i) Determine the firm's EPS.

(ii) Determine the percentage change in EPS associated with 30 per cent change (both increase and decrease) in EBIT.

(iii) Determine the degree of financial leverage at the current level of EBIT.

(iv) What additional data do you need to compute operating as well as combined leverage?

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