LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **NOVEMBER 2016**

CO 6604 – FINANCIAL MANAGEMENT

Date: 14-11-2016 Dept. No. Max. : 100 Marks

Time: 09:00-12:00

SECTION – A (Answer ALL the questions) (10x2=20)

01. Define Financial Management.

02. Give the meaning of 'Liquidity' and 'Profitability'

03. Define Capital Structure.

04. Find out the operating leverage from the following data:

Sales	Rs.50,000
Variable Cost	60%
Fixed Cost	Rs.12,000

05. Calculate the cost of equity capital from the following particulars. The current market price of a equity share of the company is Rs.80. The current dividend per share is Rs.6.40. Growth rate of dividends at 8%.

06. Mention the formula for computing the cost of redeemable preference share.

07. A project costs Rs.5,00,000 and yields annually a profit for Rs.80,000 after depreciation at 12% per annum, but before tax at 50%. Calculate Pay back period.

08. What is meant by Internal Rate of Return?

09. What is Gross Working Capital?

10. Calculate the Operating cycle days from the following data

Stock holding : Raw materials 1 month; Work-in-progress 45 days; Finished goods 1 month

Debtors collection period 2 months

Time lag in payment of bills 45 days.

SECTION – B (Answer any FOUR questions) (4x10=40)

11. Briefly explain the functions of finance manager.

12. What do you mean by optimum capital structure? Explain the factors determining optimum capital structure.

13. The following data relate to X Ltd.

	Rs.
Sales	2,00,000
Variable cost	60,000
	1,40,000
Fixed cost	1,00,000
Ebit	40,000
Interest	5,000
Taxable Income	35,000

i) Using the concept of leverage, by what percentage will taxable income increase if sales increase by 6%

ii) Using the concept of operating leverage by what percentage will EBIT increase if there is a 10% increase in sales?

iii) Using the concept of financial leverage by what percentage will taxable income increase if EBIT increases by 6 percent?

14. A Firm issues debentures of Rs.1,00,000 and realizes Rs.98,000 after allowing 2% commission to brokers. The debentures carry on interest rate of 10%. The debentures are due for maturity at the end of the 10th year. You are required to calculate the effective cost of debt before tax and after tax (Assume tax rate @ 55%).

15. Calculate Internal Rate of Return (IRR)

Initial Investment	Rs.1,80,000
Life of the Asset	4 Years
Estimated net annual cash flows	
Year	Rs.
1	45,000
2	60,000
3	90,000
4	60,000

16. What are the factors influencing working capital requirement of a firm?

17. Success Ltd., is engaged in customer retailing. You are required to forecast its Working capital requirements from the following information.

Projected annual sales	Rs.6,50,000
Percentage of Net Profit on cost of sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks

Add 20% to allow for contingencies

SECTION – C (Answer any TWO questions) **(2 X 20 = 40)**

18. Explain the objectives of Financial Management.

19. X ltd has currently an ordinary share capital of Rs.25 lakhs, consisting of 25,000 shares of Rs.100 each. The management is planning to raise another Rs.20 lakhs to finance a major programme of expansion through one of four possible financing plans. The options are:

i) Entirely through shares

ii) Rs.10 lakhs through Ordinary Shares and Rs.10 lakhs through long term borrowings at 8% interest per annum.

iii) Rs.5 lakhs through Ordinary Shares and Rs.15 lakhs through long term borrowings at 9% interest per annum.

iv) Rs.10 lakhs through Ordinary Shares and Rs.10 lakhs through preference shares with 5% preference dividend.

The company's expected Earnings Before Interest and Tax (EBIT) will be Rs.8 lakhs. Assuming a Corporate tax rate of 50%, determine the Earnings Per Share (EPS) in each alternative and comment on the implications of financial leverage.

20. A Limited company is considering investing in a project requiring a Capital outlay of Rs.2,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	1	2	3	4	5
Rs.	1,00,000	1,00,000	80,000	80,000	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of Net income. You are required to evaluate the project according to each of the following methods:

(i) Pay Back Period

(ii) Average Rate of Return method and

(iii) Net Present Value taking cost of capital as 10%

(iv) Profitability Index

Present value of interest factor @10% for one rupee is as follows:

Year	1	2	3	4	5
PV @10%	0.909	0.826	0.751	0.683	0.621

21. Xavier Ltd. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figures to allow for contingencies.

		Figure for the year (Rs.)
(i)	Average amount locked up in stocks:	
	Stock of finished goods	5,000
	Stock of stores and materials	8,000
(ii)	Average credit given:	
	Inland sales – 6 Weeks	3,12,000
	Export sales – 1 ½ Weeks	78,000
(iii)	Lag in payment of wages & other outgoings:	
	Wages – 1 ½ Weeks	2,60,000

	Stores, materials etc – 1 ½ months	48,000
	Rent, royalties, etc – 6 months	10,000
	Clerical staff salary – ½ month	62,400
	Manager salary – ½ month	4,800
	Miscellaneous expenses – 1 ½ months	48,000
(iv)	Payment in advance:	
	Sundry expenses (paid quarterly in advance)	8,000
(v)	Undrawn profits on the average throughout the year	11,000

Set up your calculations for the average amount of working capital required.

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