LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2024**

UCO 6502 – FINANCIAL MANAGEMENT

Date: 04-04-2024 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

	SECTION A – K1 (CO1)
	Answer ALL the questions (10 x 1 = 10)
1	**Fill in the blanks**
a)	The field of finance is closely related to the fields of __________.
b)	Financial risk perception is an influencing factor of _______________
c)	______________ of different sources of capital influences capital structure
d)	_______________ is a specific risk factor
e)	Net working capital refers to______________________
2	**Choose the correct answer to the following**:)
a)	Basic objective of Financial Management is __________________ a) Maximization of profit b) Maximization of shareholder's wealth c) Ensuring Financial discipline in the firm d) All of these
b)	Financial structure refers to __________________. a) Short-term resources b) All the financial resources c) Long-term resources d) All of these
c)	_______________ is the minimum required rate of earnings or the cut off rate of capital expenditure a) Cost of capital b) Working capital c) Equity capital d) None of the above
d)	The market value of the firm is the result of___________ a) Dividend decisions b) Working capital decisions c) Capital budgeting decisions d) Trade-off between risk and return
e)	Permanent working capital ____________ a) Varies with seasonal need b) Includes fixed assets c) Is the amount of current assets required to meet a firm's long-term minimum needs. d) Includes accounts payable
	SECTION A – K2 (CO1)
	Answer ALL the questions (10 x 1 = 10)
3	**Answer the following)**
a)	Define financial management
b)	What do you mean by capital structure?
c)	What is meant by cost of capital?
d)	What is net present value?
e)	What do you mean by cash discount?
4	**Answer the following**

a)	In how many years will a sum of Rs.4,000 yield a simple interest of Rs.1,440 at 12% per annum?
b)	Assume that a project requires an outlay of Rs.50,000 and yields annual cash inflow of Rs.12,500 for 7 years. Calculate the payback period of the project?
c)	A company issues 10 per cent irredeemable preference shares. The face value per share is Rs.₹100, but the issue price is ₹ 95. What is the cost of a preference share?
d)	X limited total current assets is Rs.1,00,000 and total current liabilities Rs.50, 000. Determine the working capital?
e)	A company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Re. 1 per share and the investors expect a growth rate of 5% per year. Compute the company's Cost of equity capital
	SECTION B – K3 (CO2)
	Answer any TWO of the following **(2 x 10 = 20)**
5	Explain the role and functions of the finance manager.
6	Discuss the factors determining the capital structure of a firm
7	ABC Limited., is expecting an annual EBIT of ₹ 2,00,000. The company has ₹ 2,00,000 in 10% debentures. The equity capitalization rate (ke) is 12%. Measure the total value of the firm and overall cost of capital. What happens if the company borrows Rs.2, 00,000 at 10% to repay equity capital?
8	From the following information, Calculate DOL, DFL and DCL by assuming Tax Rate as 50%.

	Amount (Rs.)
Sales	1,00,000
Variable Cost	40,000
Fixed Cost	20,000
Interest	20,000

	SECTION C – K4 (CO3)
	Answer any TWO of the following **(2 x 10 = 20)**
9	Explain the benefits of effective working capital management?
10	Do you agree with Walter's dividend model? Discuss its relevance and limitations.
11	Best and Crompton Ltd. has a share capital of Rs.1, 00,000 divided into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50, 000. 1. Issue of 10% debentures 2. Issue of 5,000, 12% preference shares of Rs.10 each. 3. Issue of 5,000 shares of Rs.10 each The earnings before interest and taxes (EBIT) are Rs.30, 000 p.a. Calculate the effect on earnings per share assuming EBIT continues to be the same even after the capital expenditure
12	X Co. 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.

		Figures for the year
i)	Average amount locked up in stocks:	Rs.
	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 and 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

SECTION D – K5 (CO4)

Answer any ONE of the following **(1 x 20 = 20)**

13 From the following capital structure of a company, compute the overall cost of capital using i) Book value weights and ii) Market value weights

	Book value (Rs.)	Market value (Rs.)
Equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
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%

14 Discuss the various determinants of working capital.

SECTION E– K6 (CO5)

Answer any ONE of the following **(1 x 20 = 20)**

15 Johnson Limited., is considering the purchase of a new machine. Two alternative machines (X and Y) have been suggested each costing Rs. 4, 00,000. Earnings after taxation are expected to be as follows:

Year	**Cash inflow**	
	Machine X (Rs.)	**Machine Y (Rs.)**
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company's target rate of return on capital employed is 10%. You are required to evaluate the alternative and state which alternative is preferable using the following methods:

a. Net Present Value Method;
b. Pay Back Period Method;
c. Profitability Index;
d. Internal Rate of Return.

The present value of Re. 1 (to be received at the end of each year).

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

16 Shanlax Limited., has a share capital of Rs.1, 00,000 divided into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50, 000.

1. Issue of 10% debentures
2. Issue of 5,000, 12% preference shares of Rs.10 each.
3. Issue of 5,000 shares of Rs.10 each

The earnings before interest and taxes (EBIT) are Rs.30, 000 p.a.

Calculate the effect on earnings per share assuming EBIT continues to be the same even after the capital expenditure.

########