



LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – COMPUTER APPLICATIONS

FIFTH SEMESTER – NOVEMBER 2024

UCC 5501 – FINANCIAL MANAGEMENT



Date: 12-11-2024

Dept. No.

Max. : 100 Marks

Time: 09:00 am-12:00 pm

SECTION A - K1 (CO1)

Answer ALL the Questions

(10 x 1 = 10)

1. Define the following terms

- a) Finance.
- b) EPS.
- c) Cost of Capital.
- d) Project Appraisal.
- e) Working Capital Management.

2. MCQ

- a) The Primary goal of Financial Management is
 - a) To maximise the return
 - b) To minimise the risk
 - c) To maximise the wealth of owners
 - d) To maximise the profit
- b) According to NOI approach, with increase in debt/equity ratio to financial risk of equity holders_____.
 - a) decreases b) Increases c) no Change d) depends on degree of leverage
- c) The micro economic variable that helps to define and explain the discipline of finance.
 - a) Inflation
 - b) Capital structure
 - c) Risk and return
 - d) All of the above
- d) The market value of the firms is the result of _____.
 - a) Capital budgeting decision
 - b) Dividend decision
 - c) Working capital decision
 - d) Trade-off between risk and return.
- e) In financial management, what does the term "working capital" represent?
 - a) The long-term assets of a company
 - b) The short-term assets of a company
 - c) The difference between current assets and current liabilities
 - d) The total liabilities of a company

SECTION A - K2 (CO1)

Answer ALL the Questions

(10 x 1 = 10)

3. Fill in the blanks

- a) A decision taken to raise money for long term capital needs of business from certain sources is called _____.
- b) Market price per share is _____ if more debt is used in NI Approach.
- c) The Issue price of debentures / amount of loan minus all _____ is called Net proceeds.
- d) _____ present value tables can be used only when cash flows are uniform to determine NPV.
- e) Working capital is the excess of _____ over _____.

4. True or False

- a) Profit / EPS maximization is the sole objective of financial management.
- b) The combined leverage is a measure of total risk of the firm.
- c) Beta is the measure of unsystematic risk.
- d) NPV is the best method of evaluating long-term investment proposals.
- e) Higher net working capital leads to higher liquidity and higher profitability.

SECTION B - K3 (CO2)

Answer any TWO of the following in 100 words each.

(2 x 10 = 20)

5. Explain how the basic financial decisions involve the trade-off between risk and return in real-world scenarios.
6. A company has to choose one of the following two mutually exclusive projects Investment required for each project is Rs. 1,50,000. Both the projects have to be depreciated on straight line basis. The tax rate is 50%.

Year	Profit before depreciation	
	Project X	Project Y
1	42,000	42,000
2	48,000	45,000
3	70,000	40,000
4	70,000	50,000
5	20,000	1,00,000

Calculate payback period.

7. A new project requires an investment of Rs. 12,00,000. Two alternative methods of financing are under consideration.
- (i) Issue of equity shares of Rs. 10 each for Rs. 12,00,000
- (ii) Issue of equity shares of Rs. 10 each for Rs. 8,00,000 and issue of 15% Debentures for Rs.4,00,000.
- Find out the indifference level of EBIT assuming a tax rate of 35%. Verify your answer.
8. K Ltd. Issued 50,000 10% debentures of Rs.100 each, redeemable in 10 years' time at 10% premium. The cost of issue was 2.5%. The company's income tax rate is 35%. Determine the cost

of debt (before and after tax) if they were issued: (a) par; (b) at a premium of 5% and (c) at a discount of 10%.

SECTION C – K4 (CO3)

Answer any TWO of the following in 100 words each.

(2 x 10 = 20)

9. Calculate operating, financial and combined leverages under situations A, B and C from the following particulars:

Fixed cost:	Situation A	Rs. 1,000
	Situation B	Rs. 2,000
	Situation C	Rs. 3,000

Installed capacity	1,200 units
Actual production and sales	800 units
Selling price per unit	Rs.15
Vairable cost per unit	Rs.10

Capital structure	A	B	C
Equity (Rs.)	5,000	7,500	2,500
Debt (Cost 12%)	5,000	2,500	7,500

10. M Ltd. Issued 60,000 15% irredeemable preference shares of Rs. 100 each. The issue expenses were Rs. 60,000. Determine the cost of preference capital if shares are issued (a) at par; (b) at a premium of 10% and (c) at a discount of 5%.

11. Analyse the following types of investments:

1. Expansion
2. diversification
3. modernization
4. replacement

12. Analyse the various sources of working capital for a business.

SECTION D – K5 (CO4)

Answer any ONE of the following in 250 words

(1 x 20 = 20)

13. The ZBB Ltd. Needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible:

- (i) The may issue 50,000 equity shares at Rs. 10 per share.
- (ii) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 8% Debentures at Rs. 100.
- (iii) The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 8% preference share at Rs. 100.

If the company's earnings before interest and taxes are Rs. 10,000, Rs.20,000, Rs. 40,000, Rs. 60,000 and Rs. 1,00,000, what are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax rate to be 50%.

14. Evaluate the effectiveness of various methods used to account for risk factors in capital budgeting decisions. Compare and contrast their strengths and weaknesses, and recommend the most appropriate method for different types of investment scenarios.

SECTION E – K6 (CO5)

Answer any ONE of the following in 250 words

(1 x 20 = 20)

15. The following information has been extracted from the Balance sheet of Fashions Ltd. As on 31.12.2022.

Particulars	Rs. In lakhs
Equity share capital	400
12% Debenture	400
18% Term loan	1200
	2000

- (a) Determine the weighted average cost of capital of the company. It had been paying dividends at a consistent rate of 20% per annum.
- (b) What difference will it make if the current price of the Rs. 100 share is Rs. 160?
- (c) Determine the effect of income tax on the cost of capital under both premises (tax rate 40%).

16. Create a strategic dividend policy for Aroma Ltd. based on a comprehensive analysis of its financial performance, market conditions, and shareholder expectations. Justify your recommendations with a detailed plan addressing the company's long-term financial sustainability and growth objectives.

Aroma Ltd. is India's leading Information Technology outsourcing service provider. The company provides business consultancy and outsourcing services to its clients. Over the past five years, the company has been paying its shareholders dividends at a high rate. However, this year, although the company's earnings are high, its liquidity is not so good. Moreover, the company plans to undertake new ventures to expand its business.

In the context of the above case, assume the role of a financial manager and provide your answers:

1. Give three reasons why you think Aroma Ltd. has been paying dividends at a high rate to its shareholders over the past five years. **(10 Marks)**
2. Comment upon the likely dividend policy of the company this year by stating any two reasons in support of your answer. **(10 Marks)**
