LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **CORPORATE SECRETARYSHIP**

FIFTH SEMESTER – **NOVEMBER 2024**

16/17/18UBC5ES01 – FINANCIAL MANAGEMENT

Date: 21-11-2024 Dept. No. Max. : 100 Marks

Time: 01:00 pm-04:00 pm

SECTION A

Answer ANY FOUR of the following **(4 x 10 = 40 Marks)**

1. Enumerate the objectives of financial management.

2. Describe the role of finance manager.

3. R ltd has a capital structure consisting of equity capital only. It has 50,000 equity shares of Rs.10 each. Now the company wants to raise a fund for Rs.1,25,000 for its various investment purposes after considering the following three alternative methods of financing.

i) If it issues 12,500 equity shares of Rs.10 each.

ii) If it borrows a debt of Rs.1,25,000 at 8% interest and

iii) If it issues 1,250- 8% preference shares of Rs.100 each.

Show the effect of EPS under various methods of financing if EBIT are Rs.1,56,250 and the rate of taxation is @ 50%.

4. Calculate operating, financial and combined leverage for the following firms;

Particulars (RS)	P	Q
Output (units)	300000	75000
Fixed cost	350000	700000
Variable cost	1	7.50
Interest expenses	25000	40000
Unit selling price	3	25

Year	Cash Inflow	Present value of Re.1 at 10%
1	18,000	0.909
2	16,000	0.826
3	14,000	0.751
4	12,000	0.683
5	10,000	0.621

5. Project 'M' initially costs Rs.50,000. It generates the following cash flows.

Taking the Cut-off rate as 10%, suggest whether the project should be accepted or not.

6. K ltd issued 50,000 – 12% debentures of Rs.100 each at par. The tax rate is 40%. Calculate cost of debt before tax and after tax.

7. Your company share is quoted in the market at Rs 20. Currently the company pays a dividend of ₹1 per share and the investor expects the growth rate of 5% per year. Compute

(A) the company's cost of equity capital.

(B) If the anticipated growth rate is 6% per annum, calculate the indicated market price per share.

(C) If the company's cost of capital is 8% and the anticipated growth rate is 5% per annum, calculate the indicated market price if the dividend of ₹1 per share is to be maintained

8. Explain the sources of finance – Short term finances.

SECTION B

Answer ANY THREE of the following **(3 x 20 = 60 Marks)**

9. ABC ltd has the following capital structure:

	Rs in Lakh
Ordinary shares- 10 lakh Nos. @ Rs. 10 each	100
Reserves and surplus	40
10% Debentures each of face value of Rs. 100	60

The company needs Rs. 50 Lakh to execute a new project which will raise its operating profit (EBIT) from the current level of Rs.40 lakh to Rs.55 Lakh. It is considering the following options:

I) Issue equity shares at a premium of Rs.15 each for the entire amount

II) Issue 12% debentures for Rs. 50 Lakh required additionally

III) Issue equity shares for Rs. 25 lakhs at a premium of Rs.20

The company's tax rate is 40%. Evaluate the EPS in three options and advice the company.

10. K ltd issued 10% debentures of Rs.500000 and realized Rs. 485000 after allowing 3% commission to brokers. 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.

11. Hari co ltd is considering the purchase of a new machine. Two alternative machine X and Y have been suggested each costing Rs.4,00,000. Earnings after taxation are expected to be as follows:

Year	Machine X	Machine Y	PV
1st	40,000	1,20,000	0.909
2nd	1,20,000	1,60,000	0.826
3rd	1,60,000	2,00,000	0.751
4th	2,00,000	1,20,000	0.683
5th	1,60,000	80,000	0.621

The company has a target rate of return on capital of 10% and on the basis, you are required to compare the profitability of the machines and state which alternative is preferable. The present value of Re. 1 (to be received at the end of each year).

12. The capital structure and after-tax cost of different sources of funds are given below

Source of funds.	Amount	Proportion to	After tax cost %

		total	
Equity share capital.	7,20,000	.30	15%
Related earnings.	6,00,000	.25	14%
Preference share capital	4,80,000	.20	10%
Debentures	6,00,000	.25	8%

13. Enumerate the changing scenario of financial management.

14. Explain the sources of long-term finance.

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