



LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – CORPORATE SECRETARYSHIP

FOURTH SEMESTER – APRIL 2025

UBC 4501 – FINANCIAL MANAGEMENT



Date: 24-04-2025

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.	Answer the following.	
a)	State the purpose of Financial Management.	
b)	What is meant by Capital Structure?	
c)	Write a note on WACC.	
d)	Bring out the formula for profitability index.	
e)	What is meant by Operating Cycle?	
2.	Fill in the blanks.	
a)	The primary objective of Financial Management is _____.	
b)	The _____ method measures the time required to recover the initial investment.	
c)	The dividend price method formula of existing equity shares for computing cost of equity (K_e) is _____.	
d)	The _____ is the discount rate that makes NPV equal to zero.	
e)	_____ refers to the funds required to meet short-term financial obligations (i.e.) day to day expenses.	

SECTION A - K2 (CO1)

	Answer ALL the Questions	(10 x 1 = 10)
3.	True or False.	
a)	The role of a finance manager is only limited to investment decisions.	
b)	The optimal capital structure is the proportion of debt and equity that minimizes the cost of capital and maximizes the firm's value.	
c)	A longer operating cycle generally increases a company's liquidity.	
d)	If a firm increases its debt in the capital structure, the cost of equity remains unchanged.	
e)	Capital budgeting decisions are concerned with short-term financial management.	
4.	Match the following.	
a)	Current Asset - Current Liability	- Capital Budgeting
b)	Capitalization rate	- Long Term Finance
c)	NPV	- Working capital
d)	EBIT-EPS analysis	- Capital Budgeting
e)	Public Deposit	- Cost of equity

SECTION B - K3 (CO2)**Answer any TWO of the following in 100 words each.****(2 x 10 = 20)**

5. Explain the various objectives of Financial management.
6. Compute the operating, financial and combined leverages from the given data:-
Sales 50,000 units at Rs. 12 per unit., Variable cost at Rs. 8 per unit., Fixed cost Rs. 90,000 (including 10% interest on Rs. 2,50,000).
Comment the risk position if the sales unit is increased to 60,000 units.
7. Apple Ltd. Issued 10% redeemable preference shares of Rs.100 each, redeemable after 10 years. The floatation costs were 5% of the nominal value. Compute the effective cost of preference share, if the issue is made:-
a) at par.
b) at premium of 5% .
c) at discount of 5%.
8. You are asked to find the required working capital of a company which sells its products on a gross profit of 20% of sales, from the information given below:
- | Particulars | Rs. |
|---|-----------|
| Sales (3 months credit) | 20,00,000 |
| Raw materials | 6,00,000 |
| Wages (half-a month in arrears) | 4,80,000 |
| Manufacturing expenses (one month in arrear) | 6,00,000 |
| Administration expenses (one month in arrear) | 2,40,000 |
- The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of raw materials and one and a half month stock of finished goods. Cash balance is maintained at Rs. 50,000 as a precautionary balance. Provide 10% for contingencies.

SECTION C – K4 (CO3)**Answer any TWO of the following in 100 words each.****(2 x 10 = 20)**

9. Enumerate the different methods of calculating the cost of equity capital.
10. Classify and explain the different kinds of Leverages.
11. Lawrence & Co., has to choose one of the following mutually exclusive projects. The cost of each project is Rs.15,000. Both projects have to be depreciated on straight line basis. The tax rate is 50%. Calculate the pay-back period.

Year	Profit before Depreciation and tax	
	Project X (Rs.)	Project Y (Rs.)
1	4,200	4,200
2	4,500	4,800
3	4,000	7,000
4	5,000	8,000
5	10,000	2,000

12. Two firms X and Y are identical except in the method of financing. Firm X has no debt, while firm Y has Rs. 2,00,000 5% debentures in financing. Both the firms have a Net Operating Income (EBIT) of Rs. 50,000 and equity capitalization rate of 12.5%. The corporate tax rate is 50%. Calculate the value of the firm using MM Approach.

SECTION D – K5 (CO4)

Answer any ONE of the following in 250 words. (1 x 20 = 20)

13. Explain in detail the various sources of Long term and short term finance.
14. A Ltd has a share capital of Rs. 1,00,000 divided into shares of Rs. 10 each. It has a major expansion programme requiring an investment of another Rs. 50,000. The management is considering the following alternatives for raising this amount.
- Issuing of 5,000 equity shares of Rs. 10 each.
Issuing of 5,000, 12% preference shares of Rs. 10 each.
Issuing of 10% debentures for Rs.50,000
- The company's present earnings before interest and tax are Rs. 40,000 p.a., tax rate is at 50%. You are required to calculate the effect of each of the above modes of financing on the earning per share presuming. EBIT continues to be the same even after expansion. Calculate the composite cost of capital and determine the optimal debt - equity mix.

SECTION E – K6 (CO5)

Answer any ONE of the following in 250 words (1 x 20 = 20)

15. The Braze Company Ltd. is considering two alternative machines (A and B) to purchase, each having an initial cost of Rs.4,00,000 and requiring Rs.2000 as additional working capital at the end of 1st year. The cash flows are expected as follows:-

Year	Cash Inflows		Discount rate @10%
	Machine A (Rs.)	Machine B (Rs.)	
1	20,000	60,000	0.91
2	60,000	80,000	0.83
3	80,000	1,00,000	0.75
4	1,20,000	60,000	0.68
5	80,000	40,000	0.62

The company has a target of return on investment is 10%. You are required to assess the project on the basis of their present values, using (i) NPV method (ii) Profitability index method.

16. Calculate the amount of working capital requirement for IPL Ltd. from the following information:

Particulars	Rs. (Per Unit)
Raw Material	160
Direct Labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

Additional Information:

1. Raw materials are held in stock on an average for one month.
2. Materials are in process on an average for half-a-month.
3. Finished goods are in stock on an average for one month.
4. Credit allowed by suppliers is one month and credit allowed to debtors is two months.
5. Time lag in payment of wages is 1½ weeks.
6. Time lag in payment of overhead expenses is one month.
7. One fourth of the sales are made on cash basis.
8. Cash in hand and at the bank is expected to be Rs. 50,000; and expected level of production amounts to 1,04,000 units for a year of 52 weeks.

You may assume that production is carried on evenly throughout the year and a time period of four weeks is equivalent to a month.
