LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com.DEGREE EXAMINATION – **COMMERCE**

FIRSTSEMESTER – APRIL 2018

CO 1807- FINANCIAL MANAGEMENT

Date: 25-04-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

Section – A

Answer all questions: 10 x 2 = 20

1. Define Financial Management.
2. How do you classify the patterns of Capital Structure?
3. What do you mean by “Arbitrage Process”.
4. Explain the two types of working capital?
5. List out the factors affecting cost of capital?
6. Discuss NPV method.
7. State any two credit policies.
8. Illustrate Lock Box System?
9. A firm issues debentures of Rs.1,00,000 and realises Rs.98,000 after allowing 2% commission to brokers. The debentures carry an interest rate of 10%. The debentures are due for maturity at the end of the 10^{th} year. You are required to calculate the effective cost of debt before tax.
10. A company has sales of Rs. l lakhs. The variable costs are 40% of the sales while the fixed operating costs amount to Rs.30,000. The amount of interest on long - term debt is Rs.10,000.
You are required to calculate the composite leverage.

Section – B

<u>Answer any FIVE questions:</u>5 x 8 = 40

11. Discuss the goals of financial management in detail.
12. Describe the Capital Budgeting Process.
13. Explain the different factors the Working Capital requirement of a company.
14. Sales = 1,000 units @ Rs. 10 per unit, Variable cost Rs.4 per unit, Fixed cost Rs.2,000
Calculate the operating leverage unit interprets the results. If the sales are increases or decreases by 40%, What will be the increase or decrease in EBIT?

15. A Ltd. has an Equity capital consisting of 5,000 Equity shares of Rs.100 each. It plans to raise Rs.3,00,000 for the finance expression programme and as identify four options for raising funds

1. Issued Equity shares of Rs.100 each
2. Issued 1,000 Equity shares of Rs.100 each and 2,000, 8% Preference shares
of Rs.100 each.

3. Borrow of Rs.3,00,000 at 10% interest p.a.

4. Issued 1,000 Equity shares of Rs.100 each and Rs.2,00,000, 10% Debentures.

The company has EBIT of Rs.1,50,000 of its expansion. Tax ratio is 50%.

Suggest the source in which funds should be raised.

16. A firm has 5 different items in its inventory. Suggest ABC classifications of these items.

Item No.	Average No. of units in stock	Average cost per unit (in Rs)
1	20,000	60.00
2	10,000	100.00
3	32,000	11.00
4	28,000	10.00
5	60,000	3.40

17. A project requires investments of Rs.1,00,000.It is expected to yield the following cash inflows.

Year	Cash Inflow (Rs.)
1	30,000
2	40,000
3	60,000.

Assume discount rate at 10% and 15%. Calculate IRR.

18. Calculate the value of an equity shares of company X Ltd. and Y Ltd. from the

Following particulars by applying Walters formula when dividend payment ratio (O/P ratio) is (a) 60% and (b)70%

		X Ltd.	Y Ltd.
r	=	15%	20%
Ke	=	10%	10%
E	=	Rs.10	Rs. 10

Section – C

<u>Answer any TWO questions:</u>2 x 20 = 40

19. S Ltd. has the following book value of capital structure.

	Rs.
Equity capital (Rs.10 each)	100 lakhs
11% Pref. share capital (Rs.100 each)	10 lakhs
Retained Earnings	120 lakhs
13.5% Debentures (Rs.100 each)	50 lakhs
12% Term loans	80 lakhs
	360 lakhs

(1) The next expected dividend per share is 1.5. The dividend per share expected to grow @ 7%. The market price per share in Rs.20.

(2) Preference shares are redeemed at par after 10 years is currently selling at Rs.75

(3) Debentures are redeemable at par after 6 years is currently selling at Rs.80.

(4) The tax rate is 50%.

Calculate weighted average COC using book value and market value as weights.

20. From the following details relating to Kamal ltd.

EBIT	23, 00,000
Less: - 8% Debenture Interest	80,000
	22, 20,000
Less:- 11% Loan Interest	2,20,000
EBT	20, 00,000
Less:- Tax at 50%	10,00,000
EAT	10, 00,000

No of Equity shares (Rs 10 each) = 5,00,000.Market Price per shares = Rs 20.PE ratio = 10.

The company has undistributed Reserves of Rs 20, 00,000. It requires Rs, 30, 00,000 to redeem the debentures and modernize its plant which has the following financial option-

1). Borrow 12% loan from banks. 2).Issue 1, 00,000 Equity shares of Rs. 20 each and balance from a 12% bank loans. The Company expects to improve its rate of return by 2% as a result of modernization However the PE ratio is likely to reduce 8 if entire amount is borrowed. Advise the company.

21. A project requires investment of Rs.1,00,000 are the working capital of Rs. 20,000 at the end of the first year. The project has a life of 5 years and the scrap value of Rs.20,000.

The projects yield the following profits before tax:

Year	Profit before Tax (PBT) Rs.
1	20,000
2	40,000
3	60,000
4	50,000
5	30,000

Calculate (i) Payback period (PBP). (ii) Average Rate of Return (ARR).

(iii) Net Present Value (NPV) and (iv) Profitability Index PI.(v) Discounted payback period.

Assume cost of capital is 10% and tax @ 50%

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