LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2018**

CO 6604– FINANCIAL MANAGEMENT

Date: 10-05-2018 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

SECTION-A

ANSWER ALL QUESTIONS: (10X2=20 MARKS)

1. What is meant by Finance function?

2.Mr.X deposits Rs.2,000 at the end of every year for 5 years in his savings account paying 5 per cent interest compounded annually .He wants to determine how much sum of money he will have at the end of the 5th yea?.

3. How will a firm go about determining its optimal capital structure?

4. A firm sells its products for Rs.50 per unit, has variable operating costs of Rs.30 per unit and fixed operating costs of Rs.5,000 per year. Its current level of sales is 300 units. Determine the degree of operating leverage.

5. Mention the factors affecting cost of capital.

6. The current market price of an equity share of company is Rs.90. The current dividend per share is Rs.4.50. In case the dividends are expected to grow at the rate of 7%, calculate the cost of equity capital.

7. Explain briefly the meaning of internal rate of return.

8. A Project costs Rs.20 lakhs and yields annually a profit of Rs.3 lakhs after depreciation @ 12.5 % but before tax at 50% Calculate the pay-back period .

9. What is Temporary working capital?

10. Why is an increase in the ratio of current to total assets expected to decrease both profits and risk as measured by net working capital?

SECTION-B

ANSWER ANY FOUR QUESTIONS: (4*10=40 MARKS)

11. Comment on the emerging role of the Finance management in India.

12. Discuss the determinants affecting the need for working capital

13. R Ltd has given the following information and calculate, **IIR** (internal rate of return) assuming that the cost of capital is at 10% and the initial investment is Rs 90,000

Year	Cash flow in Rs.
1	10,000

2	20,000
3	30,000
4	40,000
5	50,000

14. ABC Ltd has the following capital structures, calculate the overall cost of capital using
(a) Book value. (b) Market value,as base.

Source	Book value	Market value	Tax after cost
Equity Share Capital	45,000	90,000	14%
Retained Earnings	15,000	-----------	13%
Preference Share Capital	10,000	9,500	10%
Debentures	30,000	29,000	7%

15. The following projections have been given in respect of companies X and Y

Particulars	Company- X	Company- Y
Sales in units	80,000	1,00,000
Variable Cost per unit Rs	*4*	*3*
Fixed Cost Rs	2,40,000	2,50,000
Interest on debt Rs	1,20,000	50,000
Selling price per unit Rs	10	8

On the above information calculate (a) Operating Leverage. (b) Financial Leverage
(c) Combined Leverage. (d) Operating Break – even point.
(e) Financial Break-Even point.

16. What factors would you take into consideration in planning the capital structure of a company?

17. From the following information, prepare an estimate of working capital requirements.

Details	
Projected annual sales	52,000 units
Selling price	Rs. 60 per unit
Raw material cost	40% of selling price
Direct labour cost	30% of selling price
Overheads	20% of selling price

Raw material remains in stock on an average for 3 weeks. Goods remain in production process for 4 weeks on an average, 5 weeks are allowed to debtors to pay while firm gets 3 weeks credit from suppliers. Finished goods remain in stock for one month .Lag in the payment of wages and overhead expenses is two weeks. 50% of the sales are on cash basis. Assume that goods in process are 100% complete with respect to materials but only 50% in conversion cost

SECTION-C

ANSWER ANY TWO QUESTIONS: (2*20=40 MARKS)

18.“The finance manager should take account of the time value of money in order to make a correct and objective financial decision” Elucidate the statement with the help of suitable illustrations.

19.A company wishes to determine the optimal capital structure .From the following selected information supplied to you ,Determine the optimal capital structure of the capital .

Situations	Debt amount	Equity amount	Aftertax cost of debt	ke
1.	4,00,000	1,00,000	9	10%
2.	2,50,000	2,50,000	6	11%
3.	1,00,000	4,00,000	5	14%

20. ABC Ltd is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 and will have a life of 5 years and no salvage value. The company’s tax rate is 50%and no investment allowance is allowed. The firm uses straight line method of deprecation. The estimated net income before depreciation and tax from the proposed investment is as follows;

Year	Net income before depreciation & tax	PVIF@ 10%
1	10,000	0.909
2	11,000	0.826
3	14,000	0.751
4	15,000	0.683
5	25,000	0.621

Compute (a) Pay- back period. (b) Average Rate of return. (c) Net present value (d) Profitability Index. € Discounted Pay- back period.

21.PQR Ltd has the following capital structure .

Particulars	Rupees in lakhs
Equity Share Capital (Rs 100 each)	20
Retained Earnings	10
9% Preference Share Capital	12
7% Debenture	8
Total	50

The company earns 12% on tis capital. The income tax rate is 50%.The company requires a sum of Rs 25 lakhs to finance its expansion programme for which the following alternatives are available to it;

(i) To issue of 20,000 equity shares at a premium of rs.25 per share.

(ii) To issue of 10% Preference share.

(iii) To issue of 8% Debenture.

It is estimated that the P/E ratios in the case of Equity, Preference and Debenture financing would be 21.4, 17, and 15.7 respectively.

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