LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2025**

16/17/18/UCO6MC03 – FINANCIAL MANAGEMENT

Date: 26-04-2025 Dept. No. Max. : 100 Marks

Time: 09:00 AM - 12:00 PM

SECTION A

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

1. Explain the functions of financial management.
2. Discuss the scope of financial management.
3. A company needs Rs.6, 00,000 for construction of a new plant. The following three financial plans are feasible:

    1. The company may issue 60,000 equity shares of Rs. 10 each
    2. The company may issue 30,000 equity shares of Rs. 10 each and 3000 debentures of Rs. 100 each bearing 8% coupon rate of interest.
    3. The company may issue 30,000 equity shares of Rs. 10 each and 3,000 preference shares of Rs. 100 each bearing 8% rate of dividend.

    The profit before interest and Taxes is expected to be Rs. 1,50,000. Corporate tax rate is 50%.

    Calculate the earning per share under the three plans. Which plan would you recommended and why?

4. The capital structure and after tax cost of different sources of funds are given below:

Sources of funds	Amounts Rs.	Proportion of total	After Tax cost %
Equity share capital	7,20,000	0.30	15
Retained earnings	6,00,000	0.25	14
Preference share capital	4,80,000	0.20	10
Debentures	6,00,000	0.25	8

You are required to compute the Weighted average cost of capital.

5 Nacho Ltd, has issued 40,000 shares of ₹10 each fully paid. The company has earned a profit of ₹40,000 after tax. The market price of these share is ₹16 per share. The dividend of ₹0.80 per share. Calculate the cost of equity based on:

(i) Dividend yield method

(ii) Earnings price method

6 It is proposed to introduce a new machine to increase the production capacity of department X. two machines are available. Type A and type B. The following information is available.

Details	A (Rs.)	B (Rs.)	
Cost of	3,50,000	6,30,000	
machine	7	10	
Estimated life	20,000	32,000	
(years)	10,000	16,000	
Estimated savings in scrap p.a.			
Additional cost of indirect	15	20	
materials p.a.	10,000	16,000	
Estimated savings in wages:	7,200	12,000	
Employees not required	24,000	36,000	
Wages per employees per annum Additional cost of maintenance p.a.Additional cost of supervision p.a.			

The rate of taxation can be regarded as 50% of profits. Which machine can be recommended for purchase by using Pay Back period?

7 Discuss the estimation of working capital needs based on operating cycle process.

8 From the following estimates, calculate the average amount of working capital required:

Particulars	**P.a(Rs)**
(a) Average amount locked-up in stocks:	
Stock of finished goods & W-I-P	10,000
Stocks of stores, materials, etc.,	8,000
(b) Average credit given:	
Local sales 2 weeks credit	
Sales outside the state 6 weeks credit	1,04,000
(c) Time available for payment:	3,12,000
For purchases 4 weeks	78,000
For wages 2 weeks	2,60,000
Add: 10% to allow for contingencies.	

SECTION B

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

9	Explain the inter relationship between investment, financing and dividend decisions.
10	Calculate operating, financial and combined leverage from the following data under situations I and II and Financial plans A and B: Installed capacity 4000 units Actual production and sales 75% of the capacity Selling price Rs. 30 per unit Variable cost Rs. 15 per unit Fixed cost: Under situation I: Rs. 15,000, Under Situation II: Rs. 20,000 Capital Structure: Particulars / Financial Plan(Rs.) A / B Equity 10000 / 15000 Debt (cost 20%) 10,000 / 5,000
11	From the following capital structure of a company, compute the overall cost of capital using (i) Book value weights and (ii) Market value weights.

	Book Value (Rs.)	Market Value (Rs.)
Equity share capita (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000

	Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:

Equity share capital	14%
Retained earnings	13%
Preference share capital	10%
Debentures	5%

12 Explain the Modigliani – Miller hypothesis of dividend distribution?

13 A company is considering investing in a project requiring a capital outlay of Rs.50000. Depreciation may be taken as 20% on original cost and taxation @ 55% of net income. Cost of capital 10%.

Prepare: (a) Payback period; (b) Average rate of return; and Accounting Rate of Return (c) NPV; (d) PI. Forecast of annual income before depreciation and tax is as follows:

Year	Rs
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

14 AB Ltd., Provides the following particulars relating to its working:

	Amount in Rs. (per unit)
i. Cost/ Profit per unit:	
Raw material cost	84
Direct labour cost	36
Overheads (all Variable)	36
Total cost	156
Profit	44
Selling price	200
ii. Average amount of Backup Stock:	
Raw Materials	1 month
Work-in-progress (50% complete)	½ month
Finished goods	1 month
iii. Credit allowed by suppliers - 1 month	
iv. Credit allowed to customers – 2 months	
v. Average time lag in the payment of:	
Wages	½ month
Overhead expenses	1 ½ months
vi. Required cash in hand and at Bank Rs. 3,00,000	
vii. 25% of the output is sold for cash.	

For an expected sale of 1,00,000 units of AB Ltd., work out the working capital requirements assuming that production is carried on evenly throughout the year and wages and overheads accrue similarly.

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