# LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034



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





### 16/17/18/UCO6MCO3 - 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

 $4 \times 10 = 40 \text{ Marks}$ 

- 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.

- 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
- 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.
- 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**

	SECTION B					
Answer A	NY THREE of the following		$3 \times 20 = 60 \text{ Marks}$			
9	Explain the inter relationship between investment, financing and divid					
	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 u	nits			
	Actual production and sale	es 75% o	f 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	В			
	Equity	10000	15000			
	Debt (cost 20%)	10,000	5,000			
11	From the following capital stru	cture of a company, co	ompute the overall cost of			
	capital using (i) Book value weights and (ii) Market value weights.					
		Market Value (Rs.)				
	Equity share capita (Rs.	45,000	90,000			
	10 per share)					
	Retained earnings	15,000	-			
	Preference share capital	10,000	10,000			

	Dohantunga	20.00	00	20	0000
	Debentures The after tax cost of different se	30,00			0,000
	Equity share capita	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 – Mille	r hypothesis		lictrib	ution?
13					
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 cap		70 OII OIIgilla	ii cost a	and taxation w
	Prepare: (a) Payback period; (		rate of retur	n· and	Accounting
	Rate of Return (c) NPV; (d)				
	depreciation and tax is as follo		or annuar n		octore
	depreciation and tax is as fone	Year	Rs		
		1		0,000	
		2		1,000	
		3		1,000	
		4		5,000	
		5	25	5,000	
14	AB Ltd., Provides the following	g particulars		,	ing:
1		9 berrie	1010001115 10 10		Amount in Rs.
					(per unit )
	i. Cost/ Profit per uni	it:			<i>d</i> ,
	Raw material cost				84
	Direct labour cost				36
	Overheads (all Variable)				<u>36</u>
	Total cost				156
	Profit				<u>44</u>
	Selling price				<u>200</u>
	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	n the paymer	it of:		1/
	Wages				½ month
	Overhead expenses	and and at D	anlr D = 2.00	000	1 ½ months
	vi. Required cash in he vii. 25% of the output			,000	
	For an expected sale of 1,00,00			out the	e working canital
	requirements assuming that production is carried on evenly throughout the year and wages and overheads accrue similarly.				

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