LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2025**

UCO 6502 – 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

1) What are the fundamental financial decisions? How do they involve the risk-return trade-off?
2) Explain the relevance of the time value of money in financial decision-making.
3) Distinguish between NPV and IRR method. Why might these techniques lead to conflict in project ranking?
4) Explain various factors determining the working capital requirement of a manufacturing company.
5) M Ltd wants to replace its old machine with a new, fully automatic machine based on new technology. There are two machines available in the market at a cost of Rs.5,00,000 each. Both machines are equally good, and cash flows for 5 years are as follows:

Year	Machine A Cash inflows (Rs.)	Machine B Cash inflows (Rs.)
1	1,30,000	2,90,000
2	1,80,000	2,20,000
3	3,10,000	1,90,000
4	2,40,000	1,80,000
5	1,80,000	50,000
End of 5th Year Salvage Value	80,000	90,000

The required rate of return is 12%. Which of these machines should be accepted for replacement based on a) Payback period and b) Discounted payback period?

6) From the following data, calculate 1) Operating, 2) Financial, 3) Combined Leverage and 4) Percentage drop in sales to make the earnings per share zero.

Earnings Before Interest and Tax Rs..20,00,000
Profits After Tax Rs.9,60,000
Operating Fixed Cost Rs.15,00,000
Tax Rate 40%
Preference Dividend Rs.2,40,0000

7) A) X Ltd issued 12% debentures of Rs.1,00,000 at 5% premium with floatation cost of 2% of proceeds. The company pays corporate tax at 40%. Determine the cost of debt on a before-and-after-tax basis.

B) 2,00,000 debentures of Rs.250 each are being issued at 5% discount. The coupon rate is 5%. Flotation costs are likely to be 5% of the face value. The redemption will be after 8 years at a premium of 5%. The tax rate is 40%. Determine the cost of debt.

8) A firm has provided the following information for the year ended 31st March 2022:

Particulars	Rs
Inventory	1,20,000
Debtors	84,000
Cash and Bank Balance	12,000
Creditors	96,000
Overheads outstanding	20,000

Calculate the gross and net working capital for the year 2021-2022.

Section - B

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

9) What is the optimum capital structure? Discuss the factors determining the optimum capital structure of a company.

10) Discuss the determinants of the dividend policy of corporate enterprises.

11) "The wealth maximisation objective provides an operationally appropriate decision criterion" Critically evaluate the statement with your comments.

12) The board of directors of A Ltd request you to prepare a statement showing the working capital requirements forecast for a level of activity of Rs.1,56,000 units of production. The following information is available for your calculation:

Particulars	Rs. per Unit
Raw Materials	90
Direct Labour	40
Overheads	75
Total Cost	205
Profit	60
Selling Price	265

The Raw Materials are in stock on average for one month. Materials are in process, on average 2 weeks. Finished Goods are in stock on average for one month. Credit allowed by suppliers for one month. Time lag in payment from debtors is 2 months. Lag in payment of wages 11/2 weeks. Lag in payment of overhead one month. 20% of the output is sold against cash. Cash in hand and Bank is expected to be Rs.60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly. Provide 10% contingencies.

13) A company earns a profit of Rs. 3,00,000 per annum after meeting its interest liability of Rs. 1,20,000 on 12% debentures. The tax rate is 50%. There are 80,000 equity shares of Rs. 10 each, and the retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

Required:

i) Compute the EPS if
   a) The additional funds were raised from debt.
   b) The additional funds were raised by the issue of equity shares.

ii) Advise the company as to which source of finance is preferable.

14) A Ltd is consideringinvesting in a project requiring a capital outlay of

Rs.4,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	2,00,000
2	2,40,000
3	1,60,000
4	2,00,000
5	1,20,000

The depreciation must be charged at 20% on the original cost. The company is in a 50% tax bracket. The cost of capital of the company is 10%. You are required to evaluate the project according to each of the following methods. The standard expected payback period is 2.5 years.

1) Pay-back Method
2) Accounting Rate of Return Method
3) Net Present Value Method
4) Internal Rate of Return

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