LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2025**

CO 6604 – FINANCIAL MANAGEMENT

Date: 30-04-2025 Dept. No. Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

Section – A

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

1) In what respect is the objective of wealth maximization superior to the profit maximization objective of Financial Management?
2) What is the objective of capital structure management? How does a firm determine its optimum capital structure?
3) Define Leverage. Discuss various types of leverages and their significance.
4) Explain various factors determining the working capital requirement of a manufacturing company.
5) The following data relate to X Ltd.

Particulars	Rs.
Sales	2,00,000
Less: Variable Expenses 30%	60,000
Contribution	1,40,000
Less: Fixed Operating Expenses	1,00,000
EBIT	40,000
Less: Interest	5,000
Taxable Income	35,000

   1) Using the concept of leverage, by what percentage will taxable income increase if sales increase by 6%?
   2) Using the concept of financial leverage, by what percentage will taxable income increase if EBIT increases by 6%?
   3) Using the concept of operating leverage, by what percentage will EBIT increase of there is a 10% increase in sales?

6) P Ltd is producing articles mostly by manual labour and is considering replacing it with a new machine. There are two alternative models, M and N of new machines. Prepare a statement of profitability showing the pay-back period (Ignore taxation), from the following information:

Particulars	Machine M	Machine N
Estimated life of the Machine	4 Years	5 Years
Cost of Machine	Rs.9,000	Rs.18,000
Estimated saving in scrap	Rs.500	Rs.800
Estimated savings in direct wages	Rs.6,000	Rs.8,000
Additional cost of maintenance	Rs.800	Rs.1,000
Additional cost of supervision	Rs.1,200	Rs.1,800

7) A) A firm issues debenture of Rs.1,00,000 and realizes 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. Calculate the effective cost of debt. (5 Marks)

   B) The current market price of an equity share of a 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. (5 Marks)

8) X Ltd has currently under examination of a project which will yield the following returns over a period:

Year	Net Profit After Depreciation but Before Tax Rs.
1	80,000

2	80,000
3	90,000
4	90,000
5	75,000

The Cost of the machinery works out to Rs.2,00,000, and the machine has been depreciated at 20%on WDV basis. The income tax rate is 50%. If the average cost of capital of the firm is 11%, would you recommend the project based on the Net Present Value Method?

Section - B

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

9) From the following details, you are required to assess the average amount of working capital requirement of H Ltd.,

Particulars	Average Period	Estimate for the year (Rs.)
Purchase of Material	6 weeks	26,00,000
Wages	1.5 weeks	19,50,000
Overheads:		
Rent and Rates	6 Months	1,00,000
Salaries	1 Month	8,00,000
Overheads	2 Months	7,50,000
Sales (credit)	2 Months	60,00,000
Average amount of stocks of work in progress		4,00,000

It is to be assumed that all expenses and income were made at an even rate for the year. Add 10% for the contingencies.

10) A Ltd is considering investing in a project requiring a capital outlay of Rs.1,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	50,000
2	60,000
3	40,000
4	50,000
5	30,000

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.

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

11) Define Optimum Capital Structure. Discuss the factors determining the optimum capital structure of a company.

12) Discuss the comparative merits and limitations of various methods of capital budgeting.

13) Explain the various financial decisions of a company. How do they involve the risk-return trade-off?

14) Excel Ltd has assets of Rs.1,60,000 which have been financed with Rs.52,000 of debt and Rs.90,000 of equity and a general reserve of Rs.18,000. The profit after interest and taxes for the year ended 31st March, 2019 was Rs.13,500. It pays 18% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares Rs.100 each selling at a market price of Rs.12 per share. What is the weighted average cost of capital?

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