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 - K1 (CO1)
	Answer ALL the Questions (10 x 1 = 10)
1.	**Choose the correct answer**
a)	The primary objective of financial management is to: a) Maximize profit b) Maximize shareholders' wealth c) Minimize cost d) Increase market share
b)	Which type of leverage measures sensitivity of profits to changes in sales? a) Financial leverage b) Operating leverage c) Combined leverage d) None of the above
c)	Which of the following factors affects the cost of capital? a) Interest rates b) Business risk c) Tax rate d) All of the above
d)	Capital budgeting is used for: a) Making short-term investment decisions b) Evaluating long-term investment projects c) Managing working capital d) Determining dividend payouts
e)	Risk analysis in capital budgeting is important because: a) Future cash flows are uncertain b) All investments generate profit c) Fixed assets have no depreciation d) Capital budgeting decisions are reversible
2.	**Fill in the blanks**
a)	The concept that money today is worth more than the same amount in the future is called ___________.
b)	The debt-equity ratio is used to measure a firm's ___________ leverage.
c)	The cost of capital is the minimum return required to maintain the ___________ of a firm.
d)	The internal rate of return (IRR) is the discount rate at which NPV is equal to ___________.
e)	A company with high working capital needs should have efficient ___________ management.
	SECTION A - K2 (CO1)
	Answer ALL the Questions (10 x 1 = 10)
3.	**State True or False**
a)	The accounting rate of return method considers the time value of money
b)	Operating leverage is calculated based on fixed costs in operations.
c)	A high cost of capital means a company should accept more investment projects.
d)	The Modigliani-Miller dividend irrelevance theory states that dividends do not affect firm value.
e)	A shorter operating cycle increases the need for working capital.
4.	**Answer the following**

a)	Define the time value of money.
b)	A firm has ₹5,00,000 in fixed costs and sells 10,000 units at ₹100 per unit with a variable cost of ₹50 per unit. What is the contribution per unit?
c)	State the components of the cost of capital.
d)	List out any two capital budgeting techniques.
e)	If current assets are ₹1,50,000 and current liabilities are ₹80,000, what is the working capital?

SECTION B - K3 (CO2)

Answer any TWO of the following . (2 x 10 = 20)

5. Discuss the importance of the time value of money in financial decision-making.

6. The capital structure of the company consists of the following securities:
10% Preference share capital - Rs. 1,00,000
Equity Share capital (Rs. 10 shares) - Rs. 1,00,000
The amount of operating profit is Rs. 60,000. The company is in 50% tax bracket.
Ascertain the Financial Leverage of the company.
What would be the financial leverage if the operating profit increases to Rs.90,000 and interpret your results?

7. Discuss the advantages and disadvantages of debt and equity financing.

8. ABC Ltd.'s existing capital structure is as follows:

Equity shares @Rs.100 each	Rs. 20 lakhs
10% Preference shares	Rs. 10 lakhs

The company considers taking up a new project, which requires a capital outlay of 60 lakhs.
The following two options are identified:

(a)	Equity shares @ Rs.100 each	Rs.30 lakhs
	Term loan @ 11%	Rs.30 lakhs
(b)	Equity shares @ Rs.100 each	Rs.20 lakhs
	12% Preference shares @Rs.100 each	Rs.20 lakhs
	11% Debentures @ Rs.100 each	Rs.20lakhs

Assuming tax rate is 40%, Calculate the EBIT level at which investors would be indifferent to the two options.

SECTION C – K4 (CO3)

Answer any TWO of the following. (2 x 10 = 20)

9. Discuss in detail about the major financial decisions in a business with examples.

10. A Company issues 10% irredeemable debentures of Rs. 10,00,000. Calculate cost of debt before and after tax. Company is in 50% tax bracket, calculate cost of debt before as well as after tax if debentures are issued (i) at par, (ii) at 10% discount and (iii) premium before tax cost of debt.

11. Explain the factors affecting working capital management.

12. A and B who want to buy a business seek your advice about the average working capital requirements in the first year's trading. The following estimates are available and you are asked to add 10% to allow for contingencies:
(i) Average amount locked up in stocks:
Stock of finished products and work-in-progress: ₹ 5,000
Stock of stores, materials, etc.: ₹ 8,000
(ii) Average credit given:
Local sales-2 weeks' credit: ₹ 78,000
Outside the state - 6 weeks' credit: ₹ 3,12,000
(iii) Time available for payment:
For purchases - 4 weeks: ₹ 96,000
For wages - 2 weeks: ₹ 2,60,000
Calculate the average amount of working capital required.

SECTION D – K5 (CO4)

Answer any ONE of the following (1 x 20 = 20)

13. Explain the factors affecting capital structure decisions.

14. Leyland Ltd has the following capital structures:

Equity capital Rs.10 each	Rs.10,00,000
10% Preference capital Rs.100 each	Rs.4,00,000
Retained earnings	Rs.12,00,000
12% Debentures (Rs.10 each)	Rs.5,00,000

The next expected dividend is Rs. 2 per share. The dividend is expected to grow at 6% per annum. Market price of the share is Rs.12. Preference share redeemable after 10 years is currently selling at Rs.90. Debentures redeemable after 6 years are selling at Rs.9. Assume tax rate is 50%. Calculate weighted average cost of capital using book value and market value as weights.

SECTION E – K6 (CO5)

Answer any ONE of the following **(1 x 20 = 20)**

15. Calculate Payback period, Net present value and PI for Project A and Project B. which project would you choose? The cost of capital is to be considered at 12%.

	Cash flows	
Year	Project A	Project B
0	20,00,000	30,00,000
1	4,00,000	4,00,000
2	4,00,000	4,00,000
3	4,00,000	4,00,000
4	4,00,000	4,00,000
5	4,00,000	4,00,000
6	4,00,000	4,00,000
7	4,00,000	4,00,000
8	4,00,000	4,00,000
9	4,00,000	4,00,000
10	4,00,000	4,00,000

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

(i) Projected Annual Sale 52,000 units
(ii) Selling Price Rs. 60 per unit
(iii) Raw Material cost 40% of selling price
(iv) Direct Labour cost 30% of selling price
(v) Overheads 20% of selling price

Raw materials remain 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-week 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 costs.

##############