LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**M.Com.** DEGREE EXAMINATION - **COMMERCE**

FIRST SEMESTER – NOVEMBER 2010

# CO 1807 - FINANCIAL MANAGEMENT

Date : 30-10-10 Dept. No. Max. : 100 Marks

Time : 1:00 - 4:00

**Section – A**

**Answer all questions:- 10 x 2 = 20**

1. Define Financial Management.

2. Discuss the features of an appropriate capital structure.

3. What do you mean by indifferent point?

4. Explain the term “Operating Cycle”.

5. List out the factors affecting cost of capital?

6. what is IRR?

7. Annual requirement 10,000 units

Cost per unit Rs.6

Ordering cost Rs. 120 per order

Rent , insurance etc per unit per annum Rs.3

Rate of return on investment 20%.

Calculate EOQ.

8. What is concentration banking?

9. A company has 15% perpetual debt of Rs. 1,00,000. The tax rate is 35%. Determine the cost of Debt (Kd), assuming (a) debt is issued at par (b) issued at 10% discount

10. A company has sales of Rs. l lakhs. The variable costs are 40% of the sales while the fixed operating costs amount to Rs.30,000. The amount of interest on long - term debt is Rs.10,000. You are required to calculate the composite leverage.

**Section – B**

**Answer any FIVE questions:** **5 x 8 = 40**

11. Explain the following theories of capital structure.

a) Net Income Approach

b) Net Operating Income Approach

12. Discuss the goals of financial management.

13. Explain the factors affecting dividend policy.

14. Variable Expenses as a percentage of sales is 75%, Interest Rs.300: Operating

Leverage= 6, Financial Leverage = 4 Tax rate = 50%

Prepare Income statement

15. From the following data compute the operating cycle in days.

Rs.

Average Debtors 4,80,000

Raw materials consumed 44,00,000

Total production cost 1 crore

Total cost of sales 1,05,00,000

Sales 1,60,00,000

Average stock of Raw materials 3,20,000

Average stock of WIP 3,50,000

Average stock of Finished goods 2,60,000

Creditors payment period 16 days

16. A Ltd has an equity capital consisting of 5,000 Equity shares of Rs 100 each. It plans

to raise Rs. 3,00,000 for the financial expansion programme and as to identify four

options for raising funds.

1. Issue Equity shares of Rs 100 each.
2. Issue 1,000 Equity shares of Rs.100 each and 2,000 8% Preference shares of Rs 100 each
3. Borrow of Rs 3,00,000 at 10% interest p.a
4. Issue 1000 Equity shares of Rs.100 each and Rs. 2,00,000, 10% debentures

This company has EBIT of Rs 1,50,000 of its expansion. Tax rate is 50%. Suggest the

source in which funds should be raised.

17. X Ltd. has the following projects available for investment

|  |  |  |
| --- | --- | --- |
| Projects | Investments in Rs. | NPV in Rs. |
| A | 1,00,000 | 20,000 |
| B | 3,00,000 | 35,000 |
| C | 50,000 | 16,000 |
| D | 2,00,000 | 25,000 |
| E | 1,00,000 | 30,000 |

The total funds available for investment is Rs. 3,00,000 which project will you choose

if a) Projects are divisible b) Projects are indivisible

18.Calculate the value of an equity shares of company X Ltd. and Y Ltd. from the

following particulars by applying Walters formula when dividend payment ratio (D/P

ratio) is (a)60% and (b)70%

X Ltd. Y Ltd.

r = 10% 25%

Ke = 20% 20%

E = Rs.10 Rs. 10

**Section – C**

**2 x 20 = 40**

**Answer any TWO questions:**

19. AB ltd gives you the following figures

EBIT 3,00,000

Less: 12 % Debenture Interest 60,000

2,40,000

Less: Income tax @ 50% 1,20,000

EAT 1,20,000

No. of Equity shares = 40,000

1,20,000

EPS = ------------ = Rs 3 per share

40000

Market price per share = Rs.30

Market Price Per share 30

Price Earning Ratio (PE) = ------------------------ = ------ = 10

EPS 3

The company has undistributed reserves of Rs.6,00,000 It requires

Rs.2,00,000 for expansion. This amount will earn the same rate of return on funds

employed as it is earned now.

You are informed that the Debt-Equity ratio = (Debt/ Debt + Equity) higher than

35% will reduce the PE ratio to 8 and raise the interest rate on additional funds

borrowed to 14%. The company would prefer to raise the entire funds required

through equity or through debt. Which would you recommend?

20. R ltd has the following capital structure.

Equity capital ( Rs. 20 each) 40 Lakhs

6% preference share capital( Rs. 100 each) 10 lakhs

8% debentures 30 lakhs

Market price of equity is Rs. 20

The current dividend is Rs. 2 per share which is expected to grow at 7% per annum.

The tax rate is 50%.

Calculate.

1. Weighted average COC based on book value.
2. The new weighted average COC if the company an additional Rs. 20 lakhs as 10% debentures to finance for expansion. This would result in increasing expected dividend per share to Rs. 3 and increase growth rate of dividend to 10% But the market price of equity share will fall to Rs. 15.

21. X Ltd. manufactures T.V. sets. From the credit period and likely sales of TV’s are

given below. Recommend the credit period to be adopted each of the customers A, B &C.

Credit period No. of T.V. sets likely to be sold

A B C

30 days 1,000 1,500 –

60 days 1,000 2,300 1,000

90 days 1,000 2,500 1,500

Selling price of T.V. is Rs. 9,000, PV Ratio 20% and the cost of capital is 20%. Assume the

number days in a year as 360.

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