LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **CORPORATE SECRETARYSHIP**

SIXTH SEMESTER – **APRIL 2016**

BC 6604 – FINANCIAL MANAGEMENT

Date: 15-04-2016 Dept. No. Max. : 100 Marks

Time: 09:00-12:00

PART - A

Answer ALL the questions: (10x2=20 Marks)

1. What do you mean by business finance?
2. Mention any four functions of a finance manager.
3. Write any two limitations of Profit Maximisation.
4. Give reasons for undercapitalization.
5. State the purpose of leverage analysis.
6. What is Float?
7. A company issued Rs.1,00,00,000. 14% Debentures of Rs.100 each redeemable at a premium of 5% after 5 years. Calculate the cost of debt, when the corporate tax rate is 40%.
8. Calculate combined Financial and operating leverage.
   EBIT- Rs.10,00,000
   Fixed Cost- Rs.20,00,000
   Earnings Before Tax- Rs.8,00,000
9. Write any two limitations of Pay Back Period.
10. What is Net Working Capital?

PART-B

Answer any FOUR questions: (4 x10=40 marks)

11. Enumerate the role of finance in other functional areas of management.
12. What are the characteristics of capital budgeting?
13. Explain the advantages of using preference capital.
14. A company is planning to take up a project, which requires a cash outflow of Rs.40, 000. At 10% cost of capital suggest whether the project to accepted or rejected. Expected cash in flows are

Year	1	2	3	4	5
Cash inflow	20,000	15,000	14,000	12,000	10,000
PV factor at 10%	0.909	0.826	0.751	0.683	0.621

15. A company needs Rs.50 lakhs for a project, it has two alternatives,
    Plan A: 5 lakh equity shares of Rs.10 each
    Plan B: 3 Lakh equity shares of Rs.10 each and 20,000, 10% non-convertible debentures of Rs.100 each, Assume tax rate as 45%. Calculate the indifference point.
16. Compute cost of debt after and before taxation:
    Rs.1,00,000, 11% debentures are issued at a premium of 5%, redeemed at par and the floatation expenses are 2% of the issue value, 35% tax rate is applicable to this company.
17. ABC Ltd issues 14% preference shares of face value Rs.100 each, Rs.92 per share. The shares are repayable after 12 years at par. Calculate cost of redeemable preference shares.

PART - C

Answer any TWO questions: **(2 x 20= 40 marks)**

18. Discuss in detail the objectives of financial management with examples.

19. A company is considering two mutually exclusive projects requiring an initial cash outlay of Rs.1,00,000 and life of 4 years. The required rate of return- 10% and tax rate 45%. The projects are depreciated by straight line method. The before tax cash flows expected are

Year	1	2	3	4	5
Project A	40000	40000	40000	40000	40000
Project B	50000	50000	20000	50000	50000
PV factor at 10%	0.909	0.826	0.751	0.683	0.621
PV factor at 18%	0.847	0.718	0.608	0.515	0.437

Evaluate both the projects by using Payback period method, NPV, ARR, IRR and PI. Which project should be accepted and Why?

20. A company needs Rs.12,00,000 for installation of a new factory which would yield annual EBIT of Rs.2,00,000. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of Rs.2,00,000, Rs.6,00,000 or Rs.10,00,000. The current market price per share is Rs.40 which is expected to drop to Rs.25 per share if the market borrowings were to exceed Rs.7,50,000. Cost of borrowings are indicated as under

Up to Rs.2,50,000 8% per annum
Between Rs.2,50,001 and Rs.6,25,000 10% per annum
Between Rs.6,25,001 and Rs.10,00,000 14% per annum

Assuming tax rate to be 50% work out the EPS and the scheme which would meet the objective of the management.

21. Calculate weighted average cost of capital based on Book value and Market Value Weights.

a. 2,00,000 shares of Rs.10 each 20,00,000
b. Reserves and surplus 30,00,000
c. 12% convertible Debentures 10,00,000
d. 10% loan 40,00,000
e. Tax rate 50%

Year ended 31st march	Dividend per share	EPS	Avg. Market price
2011	2.00	4.00	24
2012	2.5	5.00	30
2013	3.00	6.00	40

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