LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2018**

BC 6604– FINANCIAL MANAGEMENT

Date: 17-04-2018 Dept. No. Max. : 100 Marks

Time: 09:00-12:00

SECTION A

Answer **All the** Questions **(10 X 2 = 20)**

1. What is financial management?
2. Write two objectives of financial management.
3. What are the various sources of finance?
4. What do you understand by financial leverage?
5. Define" cost of capital".
6. State the meaning of capital structure.
7. What is net present value?
8. What is an operating cycle?
9. Ascertain financial leverage from the information given below:
   a. Net worth: Rs.50, 00,000
   b. Debt/Equity ratio: 2.50:1
   c. Interest Rate = 11%
   d. Operating profit = Rs. 40, 00,000
10. A firm's after tax cost of capital of the specific sources is as follows:
    a. Cost of debt – 10%
    b. Cost of preference shares (including dividend tax) 14%
    c. Cost of equity funds 17%

Capital structure

Debt Preference capital Equity capital	Rs. 3,00,000 Rs. 2,00,000 Rs. 5,00,000
	Rs. 10,00,000

Calculate the weighted average cost of capital using book values

SECTION – B

Answer any FOUR questions **(4×10=40)**

11. Explain the role of financial manager.

12. Discuss the Important factors or determinants of working capital.

13.What do you mean by financial planning? Explain its objectives and importance.

14.Following are the details regarding the capital structure of a company. Calculate the weighted average cost of capital using market value.

Source	Book value	Market value	Specific cost
Debentures	80000	76000	5%
Preference capital	20000	22000	8%
Equity capital	120000	240000	13%
Retained earnings	40000	---	9%
Total	260000	338000	

15. Income statement of the P.N.R is given below

	Rs.
Sales	10,50,000
Variable cost	7,67,000
Fixed Cost	75,000
EBIT	2,08,000
Interest	1,10,000
Tax	29,400
Net Income	68,600
Number of Equity	4,000

Calculate: a) operating leverage b) Financial leverage

c) Combined Leverage d) Earnings Per Share (EPS)

16. Project M initially costs Rs.30000. it generates the following cash inflows.

Year	Cash inflows	Present value of re.1 @10%
1	10000	0.909
2	8000	0.826
3	8000	0.751
4	9000	0.683
5	7000	0.621

Taking the cut-off as 10% suggest whether the project should be accepted or not.

17. From the following information extracted from the books of a manufacturing company,

Compute the operating cycle in days and the amount of working capital required:

Period Covered	365 days
Average period of credit allowed by suppliers	16 days
Average Total of Debtors Outstanding	480.00
Raw Material Consumption	4,400. 00
Total Production Cost	10,000.00
Total Cost of Sales	10,500.00
Sales for the year	16,000. 00

Value of Average Stock maintained:

Raw Material	320 .00
Work-in-progress	350 .00
Finished Goods	260. 00

SECTION – C

Answer any TWO Questions **(2 X 20= 40 Marks)**

18. Explain the scope and importance of Financial Management.

19. A choice is to be made between Two competing projects which require an equal investment of Rs. 1,00,000 and expected to generate Net cash flows as under:

	Project I Rs.	Project II Rs.
End of the year 1	50,000	20,000
2	30,000	24,000
3	20,000	36,000
4	Nil	50,000
5	24,000	16,000
6	12,000	8,000

The cost of capital of the company is 10%. The following are the PV factors @ 10% p.a

Year	1	2	3	4	5	6
P.V factor @ 10%	0.909	0.826	0.751	0.683	0.621	0.564

Which project proposal show be chosen and why? Evaluate the project proposal under:

i) Pay Back Period ii) present Value Method

iii) Net present value method, iv) Discounted payback method.

20. Theexisting capital structure of Risk ltd. is as follows:

Equity shares of Rs.100 each	Rs.25,00,000
Retained earnings	Rs.15,00,000
10% preference	Rs.20,00,000
8% debentures	Rs.20,00,000

Company earns a return of 15% and the tax on income is 35%. Company wants to raise Rs.18,00,000 for its expansion project for which it is considering following alternatives:

a) Issue of 14,400 equity shares at a premium of Rs.25 per share

b) Issue of 11% preference shares

c) Issue of 10%debentures.

Projected that the P/E ratios in the case of equity, preference shares and debentures financing would be 15, 12 and 10 respectively. Which alternative would you consider to be the best? Give reason for your choose.

21. Calculate estimated working capital from the following particulars:

Rs.

i) Annual expenses:	
Wages	52,000
Stores & Material	9,600
Office Salaries	12,480
Rent	2,000
Other Expenses	9,600
ii) Average Amount of Stocks to be maintained:	
Stock of Finished Goods	1,000
Stock of materials and Stores	1,600
iii) Expenses paid in advances:	
Quarterly advance	1,600 p.a
iv) Annual Sales:	
Inland market	62,400
Foreign market	15,600
v) Lag in payment of all expenses:	
Wages - 1 ½ Weeks	
Stores & Material - 1 ½ Months	
Office Salaries - 1 ½ months	
Rent - 6 months	
Other Expenses - 1 ½ months	
vi) Credit allowed to customers :	
Inland market – 6 Weeks	
Foreign market - 1 ½ Weeks	

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