LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com. DEGREE EXAMINATION – **COMMERCE**

FIRST& FOURTH SEMESTER – APRIL 2010

CO 1807 / 4800 - FINANCIAL MANAGEMENT

Date & Time: 24/04/2010 / 1:00 - 4:00 Dept. No. Max. : 100 Marks

SECTION – A

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

1. Define Financial Management.
2. How do you classify the patterns of Capital Structure.
3. What do you mean by “Arbitrage Process”.
4. Explain the two types of working capital?
5. List out the factors affecting cost of capital?
6. Discuss NPV method.
7. State any two credit policies.
8. Illustrate Lock Box System?
9. A firm issues debentures of Rs.1,00,000 and realises 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. You are required to calculate the effective cost of debt before tax.
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

<u>Answer any FIVE questions:</u> **5 x 8 = 40**

11. Discuss the goals of financial management.
12. Describe the Capital Budgeting Process.
13. Explain the different approaches to value Ke.
14. Sales = 1,000 units @ Rs. 10 per unit, Variable cost Rs.4 per unit, Fixed cost Rs.2,000 Calculate the operating leverage unit interpret the results. If the sales are increases or decreases by 40%, What will be the increase or decrease in EBIT?
15. Discuss the advantages of Bonus Issue?

16. A firm has 5 different items in its inventory. Suggest an ABC classifications of these items.

Item No.	Average No. of units in stock	Average cost per unit
1	20,000	60.00
2	10,000	100.00
3	32,000	11.00
4	28,000	10.00
5	60,000	3.40

17. A project requires investments of Rs.1,00,000.It is expected to yield the following cash inflows.

Year	Cash Inflow Rs.
1	30,000
2	40,000
3	60,000.

Assume discount rate at 10% and 15%. Calculate IRR.

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 (O/P ratio) is (a)60% and (b)70%

		X Ltd.	Y Ltd.
r	=	15%	20%
Ke	=	10%	10%
E	=	Rs.10	Rs. 10

SECTION – C

2 x 20 = 40

Answer any TWO questions:

19. S Ltd. has the following book value of capital structure.

	Rs.
Equity capital (Rs.10 each)	100 lakhs
11% Pref. share capital (Rs.100 each)	10 lakhs
Retained Earnings	120 lakhs
13.5% Debentures (Rs.100 each)	50 lakhs
12% Term loans	80 lakhs
	360 lakhs

(1) The next expected dividend per share is 1.5. The dividend per share expected to grow @ 7%. The market price per share in Rs.20.

(2) Preference shares are redeemed at par after 10 years is currently selling at Rs.75

(3) Debentures are redeemable at par after 6 years is currently selling at Rs.80.

(4) The tax rate is 50%.

Calculate weighted average COC using book value and market value as weights.

20. 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 finance expression programme and as identify. Four options for raising funds

1. Issued Equity shares of Rs.100 each
2. Issued 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. Issued 1,000 Equity shares of Rs.100 each and Rs.2,00,000, 10% Debentures.

The company has EBIT of Rs.1,50,000 of its expansion. Tax ratio is 50%. Suggest the source in which funds should be raised.

21. A Ltd. produces 1,20,000 units p. a. It's percentage of cost to selling price are Raw materials 60% wages 10% and OHS. 20%.Selling price is Rs.5 per unit.

1. Raw materials is in stock 2 months.
2. Work - in - progress 1 months
3. Finished goods 3 months
4. Creditors allowed 2 months credit and Debtors are given 3 months credit.
5. Wages and OHS are paid on the 1st of each month for the previous month.
6. Cash in hand Rs.40,000.

Calculate the cash cost of working capital.

****