# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**B.Com.** DEGREE EXAMINATION – **COMMERCE**

SIXTH SEMESTER – **APRIL 2013**

**CO 6604 - FINANCIAL MANAGEMENT**

Date : 25/04/2013 Dept. No. Max. : 100 Marks
Time : 1:00 - 4:00

## PART – A

**ANSWER ALL THE QUESTIONS: (10X2=20Marks)**

1. Define Financial Management.
2. State the role of a finance manager in an organisation.
3. What is capital gearing?
4. List the Features of an appropriate Capital Structure.
5. What is working capital?
6. Calculate the payback period: Initial investment Rs.1,00,000 and annual cash inflows after tax Rs.25,000 p.a.
7. A firm has a sales of Rs.7,50,000, variable cost 40% and the fixed cost is Rs.2,00,000.it has a debt capital of Rs.4,00,000@12%. Calculate the financial leverage.
8. The market price of an equity share of G Ltd. Is Rs.80. The dividend expected a year is Rs.1.60 per share. The shareholders anticipate a growth of 7% in dividends. Calculate the cost of equity.
9. The initial cost of an equipment is Rs.3,00,000. Cash inflows for 5 years are estimated to be Rs.2,00,000 per year. Desired rate of return is 15%. Calculate the net present value. ( p.v = 3.352)
10. Peter deposits Rs.15,000 at the beginning of every year for 4 years. The rate of interest is 10% p.a. Determine the maturity value at the end of the period. (compound value of annunity at 10% for 4 years = 4.641).

## PART – B

**ANSWER ANY FIVE QUESTIONS: (5X8=40Marks)**

11. Discuss the objectives of financial management.
12. Characteristics of Preference Shares
13. Initial outlay Rs.60,000, Life of the asset – 4 years, estimated cash flows I- Rs.15,000., II YEAR- Rs. 20,000, III YEAR- Rs.30,000, IV YEAR – Rs.20,000. calculate Internal rate return.

| YEAR | P.V. 15% | P.V. 14% |
|---|---|---|
| 1 | 0.869 | 0.877 |
| 2 | 0.756 | 0.769 |
| 3 | 0.657 | 0.674 |
| 4 | 0.571 | 0.592 |

14. A company has a sale of Rs.10,00,000, variable cost – Rs.7,00,000, fixed Cost- Rs2,00,000, Debt- Rs.5,00,000 with an interest rate of 10%. Calculate the operating, financial and combined leverage. Assume Tax Rate 50%

15. A company needs Rs.60 lakhs for a project, it has two alternatives,
Plan A: 6 lakh equity shares of Rs.10 each
Plan B: 3 Lakh equity shares of Rs.10 each and 30,000, 10% non-convertible debentures of Rs.100 each, Assume tax rate as 55%. Calculate the indifference point.

16. What are the Dangers of excessive working capital?

17. Examine the factors affecting working Capital Requirement.

18. Calculate a. cost of debentures b. cost of preference share capital
    - Rs.100 per debenture redeemable at par, maturity period-20 years, 8% coupon rate, 4% floatation charges and sale price Rs.100.tax 50%
    - Rs.100 preference shares, redeemable at par, 15 years maturity, 10% dividend rate, 5% floatation charges, Sale price Rs.100.

## PART – C

**ANSWER ANY TWO QUESTIONS:** **(2X20=40Marks)**

19. From the following capital structure of a company calculate the overall cost of capital using Market Value and Book Value Weights.

| SOURCE | BOOK VALUE(Rs.) | Market Value(Rs.) |
|---|---|---|
| Equity Share Capital( Rs.10 per share) | 45000 | 90000 |
| Retained Earning | 15000 | - |
| Preference Share Capital | 10000 | 10000 |
| Debentures | 30000 | 30000 |

The after tax cost of different sources of finance are as follows: Equity Share14%, Retained Earning-13%, Preference Share Capital-10%,Debentures-5%.

20. A company is considering two mutually exclusive projects requiring an initial cash outlay of Rs.1,00,000 and life of 5 years. The required rate of return- 10% and tax rate 55%. 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?

21. A company's capital structure consists of the following:

| | |
|---|---|
| Equity shares of Rs.100 each | Rs.20 lakh |
| Retained earnings | Rs.10 lakh |
| 9% preference Shares | Rs.12lakh |
| 7% Debentures | Rs.8 lakh |

The company earns 12% on its capital. The income tax rate is 50%.
The company requires a sum of Rs.25 lakhs to finance its development. The following financial options are under consideration, guide the best plan.
Plan- A= issue of 20,000 equity shares at a premium of Rs.25 per share
Plan- B= 10% preference shares
Plan-C= 8% Debentures.

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