LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTHSEMESTER – APRIL 2017

CO 6608- FINANCIAL MANAGEMENT

Date: 20-04-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART – A

ANSWER ALL THE QUESTIONS: **(10 x 2 = 20 marks)**

1. What is business finance?
2. What do you mean by liquidity?
3. Define Arbitrage process.
4. What is optimum capital structure?
5. The current market price of an equity share of a company is Rs. 90. The current dividend per share is Rs. 4.50. In case the dividends are expected to grow at the rate of 7%. Calculate the cost of equity capital.
6. Define cost of capital.
7. A project has an initial investment of Rs.2,00,000. It will produce cash flows after tax of Rs.50,000 per annum for six years. Calculate the payback period for the project.
8. What is Dividend?
9. Define net working capital.
10. A purchased 1600 units of a certain component from B. his annual usage is 1,600 units. The order placing cost is Rs. 100 and the cost of carrying one unit for a year is Rs. 8. Calculate the Economic Ordering Quantity by formula method.

PART – B

ANSWER ANY FOUR QUESTIONS: **(4 x 10 = 40 marks)**

11. Explain the objectives of Financial Management in detail.
12. What is Leverage? Explain various types of leverages.
13. The following data pertain to Koushik Ltd.

    Existing capital structure: 10 lakhs Equity shares of Rs. 10 each, tax rate: 50%
    Koushik ltd plans to raise additional capital of Rs. 100 lakhs for financing an expansion project. It is evaluating two alternative financing plans:
    (i) issue of 10,00,000 equity shares of Rs. 10 each, and
    (ii) issue of 100 lakh debentures carrying 14% interest.
    You are required to compute indifference point.

14. Your company's share is quoted in the market at Rs. 20 currently. The company pays a dividend of Rs. 1 per share and the investor's market expects a growth rate of 5% per year. You are required to compute:
    (i) The company's equity cost of capital.
    (ii) If the company's cost of capital is 8% and the anticipated growth rate is 5% p.a, the market price if the dividend of Re.1 is to be maintained.

15. A company has an investment opportunity costing Rs. 40,000 with the following expected net cash inflows (i.e., after tax and before depreciation):

Year	Net cash inflows Rs.
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Determine the "Internal rate of return" with the help of 10% discounting factor and 15% discounting factor which is given below:

Year	Present value factor @ 10%	Present value factor @ 15%
1	0.909	0.870
2	0.826	0.756
3	0.751	0.658
4	0.683	0.572
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284
10	0.386	0.247

16. Determine the average rate of return from the following data of two machines A and B.

	Machine A Rs.	Machine B Rs.
Original cost	56,125	56,125
Additional investment in net working capital	5,000	6,000
Estimated life in years	5	5
Estimated salvage value	3,000	3,000
Average income-tax rate	55%	55%
Annual estimated income after dep. and tax:		
1st year	3,375	11,375
2nd year	5,375	9,375
3rd year	7,375	7,375
4th year	9,375	5,375
5th year	11,375	3,375
	36,875	36,875

Depreciation has been charged on straight line basis.

17. Prepare a cash budget for the month May, June and July 2009 on the basis of the following information:

Month	Credit sales Rs.	Credit purchases Rs.	Wages Rs.	Manufacturing expenses Rs.	Office expenses Rs.	Selling expenses Rs.
March	60,000	36,000	9,000	4,000	2,000	4,000
April	62,000	38,000	8,000	3,000	1,500	5,000
May	64,000	33,000	10,000	4,500	2,500	4,500
June	58,000	35,000	8,500	3,500	2,000	3,500
July	56,000	39,000	9,500	4,000	1,000	4,500
August	60,000	34,000	8,000	3,000	1,500	4,500

(i) Cash balance on 1st May 2009 Rs. 8,000

(ii) Plant costing Rs. 16,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.

(iii) Advance tax of Rs, 8,000 each is payable in March and June.

(iv) Period of credit allowed

  (a) by suppliers – two months, and

  (b) to customers – one month.

(v) Lag in payment of manufacturing expenses – ½ month.

(vi) Lag in payment of office and selling expenses – one month.

PART – C

ANSWER ANY TWO QUESTIONS: (2 x 20 = 40 marks)

18. A company capital structure consists of the following:

Equity shares of Rs. 100 each	Rs. 20 lakhs
Retained Earnings	Rs. 10 lakhs
9% Preference shares	Rs. 10 lakhs
7% Debentures	Rs. 10 lakhs
Total	Rs. 50 lakhs

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 expansion programme for which following alternatives are available to it:

(i) Issue of 20,000 equity shares at a premium of Rs. 25 per share.
(ii) Issue of 10% preference shares.
(iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the case of Equity, Preference and Debenture financing would be 21.4, 17 and 15.7 respectively.
Which of the three financing alternatives would you recommend and why?

19. The balance sheet of M/s. ABC company shows the following items as at 31st December, 2008:

	Rs.
Paid up cap: 4,00,000 equity shares of Rs. 10 each	40,00,000
Reserves and surplus	60,00,000
15% Non-convertible Debentures	20,00,000
14% Institutional loans	60,00,000

Other information about the company as relevant is given below:

Year ended 31st December	Dividend per share Rs.	Earnings per share Rs.	Market price per share Rs.
2008	4.00	7.50	50.00
2007	3.00	6.00	40.00
2006	4.00	4.50	30.00

You are required to calculate the weighted average cost of capital, using book values as weights and Earning/Price (E/P) ratio as the basis of cost of equity.

20. Vishnu Ltd is considering two different investment proposals. The details are as under:

Investment estimated	Proposal I Rs. 9,500	Proposal II Rs. 20,000
Inflows		
Year 1	Rs. 4,000	Rs. 8,000
Year 2	4,000	8,000
Year 3	4,500	12,000

Suggest the most attractive proposal on the basis of pay Back period, Net Present value &ProfitabilityIndex Considering the discount Rate as 12%.

21. X Co. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of Working Capital which will be required in the first year's working.You are given the following estimates and instructed to add 10% to your computed figure to allow for contingencies

		Figure for the year
i.	Average amount locked up in Stocks	Rs.
	Stock of Finished goods	5,000
	Stock of stores and materials	8,000
ii.	Average Credit given:	
	Inland Sales – 6 Weeks	3,12,000
	Export Sales – 1½ Weeks	78,000
iii.	Lag in Payment of wages and other outgoing:	
	Wages – 1½ Weeks	2,60,000
	Stores, Materials, etc. – 1½ months	48,000
	Rent, Royalties, etc. – 6 months	10,000
	Clerical staff salary – ½ month	62,400
	Manager salary – ½ month	4,800
	Miscellaneous Expense – 1½ months	48,000
iv.	Payment in advance!	
	Sundry Expense [Paid Quarterly in advance]	8,000
v.	Undrawn profits on the average throughout the year	11,000

Setup your Calculations for the average amount of working capital Required

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