LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTH SEMESTER – **APRIL 2023**

18/17/16UCO6MC03 – FINANCIAL MANAGEMENT

Date: 05-05-2023 Dept. No. Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

Section: A

Answer All Questions: **10 x 2 = 20**

1) What is Financial Management?
2) What do you understand by tradeoff between risk and return?
3) Mr. Joe invested Rs.30,000 in the beginning of year at an interest rate of 12% p.a. find out the amount, he will receive at the end of 5^{th} Year.
4) Write a short note on Trading on Equity.
5) Calculate the operating leverage for the given values of Sales Rs.10,00,000; Variable Cost Rs.6,00,000 and Fixed Overheads Rs. 2,00,000.
6) Define "Cost of Capital".
7) What should be the optimum dividend pay-out ratio, when r = 12% and K = 15%?
8) What is Payback Period?
9) Distinguish between Permanent and Temporary Working Capital.
10) The beta factor of M Ltd is 1.25. The risk-free rate of interest on government securities is 8%. The expected rate of return on company equity share is 15%. Calculate the cost of equity capital.

Section – B

Answer any Four questions: **4 x 10 = 40**

11) "Wealth Maximization is a better criterion than Profit Maximization." Do you agree? Explain.
12) Critically examine the Net Income, Net Operating Income and Traditional Approaches.
13) The company's total asset turnover is 4. Total Assets of the company is 2,50,000. Its fixed operating costs are Rs.1,50,000 and its variable operating cost ratio is 40%. The income tax rate is 50%. The company has 50,000 equity shares of Rs.10 each and 10,000, 12% Debentures of Rs.100 each. Calculate composite Leverage of the company and determine the likely EBIT if EPS is 6. If the sales drop by 30%, what will be the new EBIT?
14) In considering the most desirable capital structure for a company, the following estimates of the cost of debt and equity capital (after tax) has been made at various levels of debt equity mix. You are required to determine the optimal capital structure for the company.

Debt as percentage of total capital employed	Cost of Debt (%)	Cost of Equity (%)
0	5	12
10	5	12
20	5.5	12.5
30	6	13
40	6.5	14
50	6.5	16
60	7	20

15) Explain Walter Model of Share Valuation and Dividend Policy.
16) A capital budgeting proposal requires an initial outlay of Rs.2,00,000 and is expected to generate the annual cash inflows of Rs.70,000, Rs.60,000, Rs.50,000, Rs.40,000 and Rs.30,000 respectively for a period of 5 years. Find out the payback period of the investment proposal. You are also required to calculate the discounted payback period of the proposal if the cost of capital of the business is considered as 10%.

17) Consider the given information of X Ltd.,

Particulars	Amount Rs.
Earnings Before Interest and Tax	12,00,000
Earnings Before Tax	3,00,000
Operating Fixed Cost	24,00,000
Preference Dividend	60,000
Tax Rate	40%

Calculate the degree of operating, financial and combined leverage. By what percentage operating profits would increase if sales increased by 10%?

Section – C

Answer any Two questions: **2 x 20 =40**

18) Define Optimum Capital Structure. Explain the determinants of optimum capital structure of the company.

19) From the following details you are required to assess the average amount of working capital requirement of H Ltd.,

Particulars	Average Period	Estimate for the year (Rs)
Purchase of Material	6 weeks	26,00,000
Wages	1.5 weeks	19,50,000
Overheads:		
Rent and Rates	6 Months	1,00,000
Salaries	1 Month	8,00,000
Overheads	2 Months	7,50,000
Sales (credit)	2 Months	60,00,000
Average amount of stocks of work in progress		4,00,000

It is to be assumed that all expenses and income were made at even rate for the year. Add 10% for the contingencies.

20) The capital structure of H Ltd as on 31/3/2017 was as follows:
Equity Capital (1,00,00,000 equity shares of Rs.10 each) Rs.10,00,00,000
Reserves Rs.2,00,00,000
14% Debentures of Rs.100 each. Rs.3,00,00,000 (Market value Rs.115)
For the year ended 31/3/2017 the company has paid equity dividend at 20%. The dividend of the company is likely to grow by 5% every year. The equity shares are now traded at Rs.80 per share. Income tax rate of the company is 50%.
You are required to calculate the current weighted average cost of capital based on book value weights and market value weights.

21) A Ltd is considering investing in a project requiring a capital outlay of Rs.1,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	50,000
2	60,000
3	40,000
4	50,000
5	30,000

The depreciation must be charged at 20% on original cost. The company is in 50% tax bracket. The cost of capital of company is 10%.
You are required to evaluate the project according to each of the following methods.

1) Pay-back Method; 2) Accounting Rate of Return Method
3) Net Present Value Method, 4) Risk Adjusted Rate Method assuming the risk rate of the firm is 2%.

###########