LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FOURTH SEMESTER – **APRIL 2023**

CO 4800 – FINANCIAL MANAGEMENT

Date: 06-05-2023 Dept. No. Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

SECTION – A Answer ALL questions (10 x 2 = 20)

1. What are the goals of Financial Management?
2. Write note on Traditional Approach to Capital structure.
3. In what way Cost of Capital is very important in Financial Management?
4. Given scrap value and working capital, write the formula for ARR in Capital Budgeting.
5. Mention the various types of credit policies in debtors' management.
6. Why does operating leverage exist in a financial statement?
7. What will be the value of Rs.1,000 deposits every year at 10% interest at the end of 5 years?
8. A Firm deposits Rs.5,000 at the end of each year for 4 years at 6% rate of interest. How much would this annuity accumulate at the end of the fourth year?
9. What are the components of the Operating Cycle?
10. What are the benefits of holding Inventory?

SECTION – B Answer any FOUR questions (4 x 10 = 40)

11. Discuss the various factors affecting the payment of Dividend Policy.
12. Critically analyse the Profit Maximization and Wealth Maximization in detail.
13. Production= 2,00,000 units, Selling Price Rs. 20 per unit, Variable cost Rs. 15 p.u Fixed cost Rs. 40,000. Interest Rs. 10,000 Preference Dividend Rs. 5,000. No. of Equity shares 10,000: Tax @ 40%. Calculate (a) All Leverages and b) Overall BEP.
14. JJ Ltd wishes to acquire a computer costing Rs 1, 00,000. It faced with two options :-
    A) To purchase a computer by taking 15% bank loan, repayable in 5 equal installments at the end of the each year together with interest.
    B) To lease the computer at the rental of Rs 320 per 1,000 of the asset value payable at the end of each year for 5 years
    The tax rate is 50% and the COC is 16% and the asset as a scrap value of 50% of the book value at the end of its life of 8 years.
    Which option the company should select if the company adopts 20% depreciation under WDV method?
15. A Ltd. is currently spending Re.1 for disposing of its wastage of Gallon. There is option that wastage after spending Rs. 60,000 on research if it is further processed the company can sell wastage for Rs. 10 per Gallon. Such processing would require an investment of Rs. 6,00,000. The new equipment will have 10 years life and no salvage value.
    Additional expenses will be variable cost Rs. 5 per Gallon, Fixed cost (excluding depreciation) Rs. 30,000 p.a. and advertising Rs. 20,000 p.a. General administration expenses Rs. 2per Gallon will be allocated to the new product. 40,000 Gallon of waste are expected to be sold every year. The tax rate is 35% and COC is 15%. Should management dispose off the wastage or further process the wastage?
16. a) PRQ. Ltd company has an annual turnover of Rs.84 crores .The sales is spread evenly over 50 weeks of the year. However, the receipts on Monday and Tuesday are twice that of each of the other 3 days of the week. The cost of banking per day is Rs.2,500. It is suggested to be deposited

twice a week on Tuesday and Friday as compared to the current practice of banking only on Friday.

A Ltd company has a Bank overdraft on 15% p.a. Interest being charged on a daily basis. Advise A Ltd Company the best course of banking assuming 360 days a year.

b) Write note on (i) Lock Box system. (ii) Concentration Banking

17. A Ltd has an equity capital consisting of 5000 Equity shares of Rs 100 each. It plans to raise Rs. 300000 for the financial expansion programme and identify four options for raising funds.

i) Issue Equity shares of Rs 100 each.

ii) Issue 1000 Equity shares of Rs.100 each and 2,000 8% Preference shares of Rs 100 each.

iii) Borrow of Rs 3,00,000 at 10% interest p.a

iv) Issue 1,000 Equity shares of Rs.100 each and Rs. 2,00,000, 10% debentures

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

SECTION – C Answer any TWO questions (2 x 20 = 40)

18. The capital structure of ABC Ltd consists of 5% Debentures of Rs. 20,000: Equity Share Capital (Rs.10 each) Rs 50,000 and Reserves Rs. 30,000. Its income statement is as follows. (Rs.)

Sales	3,00,000
Less:- Total Cost	2,69, 000
EBIT	31,000
Less: Interest	1,000
EBT	30,000
Less: Tax	10,500
EAT	19,500

The Expansion programme is expected to cost Rs. 50,000 and this is financed through debt and the rate of interest will be 7% and the PE ratio will be 6. If the expansion is financed through Equity the new shares are sold at Rs.25 each and the PE ratio will be 7. The expansion will increase sales by 50% with a return of 10% on the new sales before interest and Taxes. Advise the company to go for expansion with debt or equity shares.

19. A Ltd. wishes to raise additional finance of Rs.10 lakhs to meet its investment plans. It has Rs.2,10,000 in the form of retained earnings available for investment. The following are the further details:–

(a) Debt Equity Ratio = 3:7
(b) Cost of debt (Kd)
  (i) Upto Rs.1,80,000 = 10%
  (ii) Over Rs.1,80,000 = 16%
(c) EPs =Rs.4
(d) Dividend payout Ratio = 50%
(e) Expected growth rate of dividend = 10%
(f) Current market price per share= Rs.44
(g) Tax rate = 35%

(1) You are required to determine the pattern for raising additional finance assuming the company intends to maintain its existing debt equity ratio.
(2) Determine the cost of additional debt.
(3) Determine the cost of equity capital and retained earnings.
(4) Compute the W.A Cost for additional finance using book value as weights.

20. Loyola College incurred the following expenses on its visiting faculty during the previous year 2014-2015. (in Rs.)

Salary	2,50,000
Travel	1,50,000
Accommodation	6,00,000
Boarding	2,00,000

The accommodation expenses are expected to increase by Rs. 1, 00,000 every year. The college plans to construct a building to take care of the accommodation of such faculty. This building will save Rs. 80,000 in boarding charges and Rs. 2,70,000 in the cost of training which is to be conducted in a nearby hotel every year or to construct the building. The college will use its existing land which was bought some years back at a cost of Rs- 8,00,000 the building will cost Rs. 16,00,000 and the annual maintenance is expected to be Rs 1,00,000. The cost of construction will be written off equally over a period of 5 years. The tax rate is 50% and the cost of capital is 15%. Should the college construct the building?

21. X LTD manufacturers of TV sets. From the Credit period given below the likely sales of TVs will be increased in numbers. Recommend the credit period to be adopted for each of the customers' A, B, & C

Credit Period	Number of TV sets likely to be sold		
	A	B	C
30 Days	1000	1500	-------
60 Days	1000	2300	1000
90 Days	1000	2500	1500

The selling price of the TV is Rs.9,000, PV Ratio 20% and the cost of capital is 20%. Assume a year is 360 days.

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