LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIRST SEMESTER – NOVEMBER 2016

CO 1807 - FINANCIAL MANAGEMENT

Date: 02-11-2016 Dept. No. Max. : 100 Marks

Time: 01:00-04:00

Part – A

Answer ALL Questions **10 x 2 = 20**

1. What are the goals of Financial Management?
2. How do you interpret Operating Leverage?
3. Write a note on Net operating Income approach for Capital Structure.
4. Write the formula for Redeemable Preference Share.
5. Explain the term ‘Arbitrage Process ‘
6. Illustrate IRR?
7. How for is Lock Box system useful to Cash Management.
8. What is present value of cash inflow of Rs.1, 000 receivable after 10 years at 6% interest rate?
9. A ltd. Issues 12% preference shares of Rs.100 each redeemable after 12 years at par. The amount realized on issue is Rs. 95. Calculate cost of preference shares.
10. What will be the future value of Rs. 1,000 deposits every year at 10% interest, at the end of 5 years?

PART – B

Answer any Five Questions: **5 x 8 = 40**

11. Discuss all factors affecting Working Capital Management?
12. What are advantages of Lease Agreements?
13 A ltd issued Rs.100 , 15% debt at par repayable in 3 annual installments of Rs.30, Rs.30 and Rs.40 at the end of the 7^{th} , 8^{th} and 9^{th} year respectively. The issue cost is 3% and tax rate is 60%. Calculate **Kd**.
14. Variable expenses as a percentage of sales is 75%; interest Rs.300; Operating leverage = 6; financial leverage = 4; tax rate = 50%. Prepare income statement?

15. A Ltd. is considering an investment in two projects A and B, whose cash inflows are given below :-

Year	Project A (in Rs)	Project B(in Rs)
0	- 10,000	- 10,000
1	4,000	5,000
2	4,000	6,000
3	4,000	4,000

The riskless discount rate is 5%. Project A is less risky than in project B. The management considers the risk premium rate of 5% for project A and 10% for project B. Evaluate the projects.

16. A Ltd. has a present sale of Rs. 50, 00,000 to two customers with no risk at all. It plans to two customers with no risk at all. It plans to extents credit to customers who are in risk category. Such a policy would increase sales by Rs.10,00,000 on which the firm expects bad debts losers of 8%.

The P.V. Ratio is 15%. The average collection period is 60 days and the cost of funds 20% should the company relax its credit standard?

17. Anbu 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 financial expansion programme and identify four options for raising funds.1)Issue Equity shares of Rs 100 each.2)Issue 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) Issue 1,000 Equity shares of Rs.100 each and Rs. 2, 00,000, 10% debentures. This company has EBIT of Rs 1, 50,000 of its expansion. Tax rate is 50%. Suggest the source in which funds should be raised.

PART – C

Answer any Two Questions **2 x 20 = 40**

18. Xavier ltd has to make a choice between debt issue and equity issue for its expansion programme. Its current position as follows-

The capital structure consists of 5% Debentures Rs. 20,000: Equity. Share Capital (Rs.10) 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. 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 Rs.25 each and the PE ratio will be 7.The expansion will increase the sales by 50% with the return of 10% on the new sales before interest and taxes so advice the company.

19. A ltd. wishes to raise an additional allotment of Rs. 10 lakhs for meeting its investment plans. It has Rs. 2, 10,000 in form of retained earnings available for investment. The following are further details:-

a) Debt Equity Ratio = 3:7

b) Cost of debt (Kd)

    a. UptoRs. 1,80,000 = 10%

    b. 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. A project requires investment of Rs.1, 00,000 are the working capital of Rs. 20,000 at the end of the first year. The project has a life of 5 years and the scrap value of Rs.20, 000.

The projects yields the following profits before tax:

Year	Profit before Tax (PBT) Rs.
1	20,000
2	40,000
3	60,000
4	50,000
5	30,000

Calculate

(i) Pay Back Period (PBP).(ii) Average Rate of Return (ARR).(iii) Net Present Value (NPV)

(iv) Profitability Index PI. (v) Discounted Pay Back Period. Assume cost of capital is 10% and tax @ 50%.

21. ABC Ltd. is considering the following credit policy alternatives.

	Options		
	I	II	III
Credit period (days)	30	40	60
Sales (Rs. in lakhs)	10	11	12
Bad debts (% of sales)	5%	3%	6%
Cost of credit administration (Rs. in lakhs)i.e. administration expenses	.2	.22	.25
Average collection period (days)	45	50	70

The PV Ratio is 40%. The firm requires 20% of Return on Investment.

Suggest a suitable credit policy from the firm.

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