LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com. DEGREE EXAMINATION – COMMERCE

FIRST SEMESTER – **APRIL 2013**

CO 1807 - FINANCIAL MANAGEMENT

Date : 26/04/2013 Dept. No. Max. : 100 Marks
Time : 9:00 - 12:00

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

1. Discuss the Goals of Financial Management.
2. What are the different forms of Dividend?
3. Classify the types of Leasing agreement.
4. Write a note on Financial Leverage.
5. Explain the importance of Cost of Capital.
6. A Limited company believes a Lock Box system can be started which reduces Debtors collection period by 3 days. Credit sales are estimated that Rs.3,65,00,000 annum. The firm's cost of capital is 15%.The cost of this lock box system is 50,000 per annum. Should the company introduce the lock box system?
7. A person deposits Rs.2,000 at 10% interest per annum. What will be the amount at end of 5 years?
8. An investor wants to find out the present value of Rs.50,000 to be received after 15 years and his interest rate is 9%.
9. A Ltd. issued 15% debentures of Rs.100 each at a discount of 2%, issue expenses were Rs.1 per debenture. The debentures are redeemable at pat at the end of 10 years. Tax rate being 50% calculate Kd.
10. X ltd has the following projects available for investment. Rank the projects.

Project	Investment (Rs.)	NPV
A	1,00,000	20,000
B	3,00,000	35,000
C	50,000	16,000
D	2,00,000	25,000
E	1,00,000	30,000

SECTION – B Answer any FIVE questions (5 x 8 = 40)

11. Discuss in detail the Factors Affecting Capital Structure.
12. Critically examine the objectives of Financial Management.
13. Explain the Factors determining Dividend Policy.
14. Operating leverage = 2; combined leverage = 3; at present sale level of 10,000 units; selling price = Rs.12; variable cost = 50% of sales; tax rate = 50%, the company has no of preference share capital of the rate of interest of the company's debt to the capital structure?

15. S Ltd is considering computerizing its purchase department. The system will cost Rs 2,00,000 besides installing expenses of Rs 50,000. the system will have 5 years life with no salvage value. The system will result in savings of Rs 1,73,000 as expenses. However, it will require two computer specialists who will be paid Rs 40,000 each annually. In addition annual maintenance is expected to be Rs 12,000. the tax rate is 50% and the cost of capital is 12%. Evaluate the project.

16. A 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.

a) Issue Equity shares of Rs 100 each
b) Issue 1,000 Equity shares of Rs.100 each and 2000 8% Preference shares of Rs 100 each
c) Burrow of Rs 3,00,000 at 10% interest p.a
d) 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.

17. Calculate the value of an equity shares of company X Ltd. and Y Ltd. from the following particulars by applying Walters formula when dividend payment ratio (dividend pay out ratio) are (a)50% and (b)75% .(c) 25%.

		X Ltd.	Y Ltd.	Z Ltd.
r	=	15%	5%	10%
Ke	=	10%	10%	10%
E	=	Rs.8	Rs. 8	Rs. 8

18. From the following data calculate the Operating Cycle in days:

	Rs:
Average Debtors	4, 80,000
Raw Materials Consumed	44, 00,000
Total Production Cost	1,00, 00,000
Total Cost of Sales	1,05, 00,000
Sales	1,60, 00,000
Average stock of RM	3, 20,000
Average Stock of WIP	3, 50,000
Average Stock of Finished Goods	2, 60,000
Creditors Payment Period	16 days

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

19. S Ltd has the following book value of capital structure.

Equity capital (Rs. 10 each)	100 lakhs
11% Preference share capital	10 lakhs
Retained earning	120 lakhs
13.5% Debentures (Rs 100 each)	50 lakhs
12% term loan	80 lakhs
	360 lakhs

a) The next expected dividend per share is 1.5. The dividend per share expected to grow at 7%. The market price per share is Rs.20
b) Preference shares are redeemed at par after 10 years is currently selling at Rs.75.
c) Debentures are redeemable at par after 6 years is currently selling at Rs. 80.
d) Tax rate is 50%. d.Calculate weighted average COC using Book value and market value as weights.

20. X Ltd has to make a choice between debt issue and equity issue for its expansion programme. Its current position as follows-

The capital structure consist 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

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	19500

The Expansion Programme is expected to cost Rs. 50,000. This is financed through debt 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. Advice the company.

21. A project requires investment of Rs 1,00,000 and 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 project yields the following profit before tax.

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

Calculate; 1) Payback period (PBP) .2)Average rate of return (ARR) . 3)Net present value (NPV) 4)Profitability index (PI). 5)Discounted Pay Back Period. 6) Assume cost of capital is 10% and tax rate @ 50%.

22. Discuss the factors affecting Working Capital Management.