LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SIXTHSEMESTER – APRIL 2017

CO 6604- FINANCIAL MANAGEMENT

Date: 18-04-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION A

ANSWER ALL THE QUESTIONS. (10X2 = 20 Marks)

1. Define the term financial management.
2. List out the finance functions.
3. What is time value of money?
4. What do you mean by EBIT?
5. How will you calculate EPS?
6. Define 'Leverage'.
7. What is Weighted Average Cost of Capital (WACC)?
8. A project cost Rs.5,00,000 and yields annually a profit of Rs.80,000 after depreciation of 12% p.a. but before tax at 50%. Calculate pay-back period.
9. Write a short note on Profitability Index.
10. List out the current liabilities.

SECTION B

ANSWER ANY FOUR QUESTIONS. (4X10 = 40 Marks)

11. "Investment, financing and dividend decisions are all inter-related." – Comment.
12. Explain the objectives of financial management.
13. Elucidate the need for calculating time value of money in financial management.
14. Define capital structure. What should generally be the features of an appropriate capital structure?
15. Operating leverage – 2; Financial leverage – 3; The company has 12% debentures of Rs.12,00,000. Calculate (i) Contribution (ii) Fixed cost (iii) EBIT (iv) Profit before tax and (v) Combined leverage.
16. A company issues Rs.10,00,000 by 12% debentures of Rs.100 each. The debentures are redeemable after the expiry of fixed period of 7 years. The company is in 35% tax bracket.
    a. You are required to calculate the cost of debt after tax if the debentures are issued (i) at par (ii) at 10% Discount (iii) at 10% Premium.
    b. In the above case, what would be the cost of debt, if the company has paid the brokerage at 2%?
17. Describe the factors affecting working capital.

SECTION C

ANSWER ANY TWO QUESTIONS. **(2X20 = 40 Marks)**

18. Explain the factors affecting finance decisions.

19. X Ltd a widely held company is considering a major expansion of its production facilities and the following alternatives are available:

Source of finance	Alternatives (Rs. In Lakhs)		
	A	B	C
Share Capital	100	40	20
14% Debentures	-	40	30
Loan @ 18% p.a.	-	20	50

Expected rate of return before interest and tax is 25%. The rate of dividend of the company is not less than 20%. The company at present has no debt. Rate of corporate tax is 50%. Which of the alternatives would you choose?

20. Examine critically the different approaches for computing the cost of equity. Discuss the merits and demerits of each.

21. A Ltd company is considering to invest in a project requiring a capital outlay of Rs.2,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	100,000
2	100,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods:

a. Pay-back period method
b. Accounting Rate of Return method
c. Net Present Value method taking cost of capital at 10%
d. Internal Rate of Return method

NOTE: The discount factors at 10% cost of capital are 0.909 in Year 1; 0.826 in Year 2; 0.751 in Year 3; 0.683 in Year 4 and 0.621 in Year 5.

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