 LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**M.Com.** DEGREE EXAMINATION - **COMMERCE**

FIRST SEMESTER – **APRIL 2012**

# CO 1807 - FINANCIAL MANAGEMENT

Date : 25-04-2012 Dept. No. Max. : 100 Marks

Time : 9:00 - 12:00

**Section – A**

**Answer all questions: 10 x 2 = 20**

1. What is Financial Leverage?

2. How do you classify the patterns of Capital Structure?

3. What do you mean by “IRR”?

4. Explain the two types of working capital?

5. What is the significance of Capital Budgeting?

6. What will be the value of Rs.1000 deposits every year at 10% interest at the end of 5 years?

7. A person received an annuity of Rs.5000 for four years. If the rate of interest is 10%. What will be

the present value of annuity?

8. The New project under consideration requires Rs. 30,00,000. The financing option are-

i,Issue of Equity shares of Rs. 100 each

ii,Issue Equity shares of Rs. 20,00,000 and 15% debentures for Rs. 10,00,000

Tax rate is 50%.Calculate the indifference point EBIT

9. A Company has 15% perpetual debt of Rs. 1, 00,000. The tax rate is 35% determine the cost of debt

(Kd) assuming a) debt is issued at par, b) issued at 10% discount

10. A company has sales of Rs. 1. lakh. The variable costs are 40% of the sales while the fixed operating

costs amount to Rs.30,000. The amount of interest on long - term debt is Rs.10,000. You are required

to calculate the composite leverage.

**Section – B**

**Answer any FIVE questions:** **5 x 8 = 40**

11. Discuss the Factors affecting Capital Structure

12. Explain the different types of Leasing.

13.Dicuss the advantages of Bonus Shares.

14. Operating Leverage = 2 : Combined leverage= 3, at present sales level of 10000 units; selling price=

Rs.12; Variable cost= 50% of sales Tax rate = 50%. The company has no preference share capital.

If the rate of Interest of the company debt is 16% calculate the amount of Debt to the capital structure.

15. From the following data compute the operating cycle in days.

Rs.

Average Debtors 4,80,000

Raw materials consumed 44,00,000

Total production cost 1 crore

Total cost of sales 1,05,00,000

Sales 1,60,00,000

Average stock of Raw materials 3,20,000

Average stock of WIP 3,50,000

Average stock of Finished goods 2,60,000

Creditors payment period 16 days

16. A Ltd. is considering in purchase of machine of two models X and Y. The estimated cash inflow and certainty equivalent are as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Cash inflow | certainty equivalent of X | Cash inflow | certainty equivalent of Y |
| 0 | -30,000 | 1 | -40,000 | 1 |
| 1 | 15,000 | .95 | 25,000 | .90 |
| 2 | 15,000 | .85 | 20,000 | .80 |
| 3 | 10,000 | .70 | 15,000 | .70 |
| 4 | 10,000 | .65 | 10,000 | .60 |

Risk free discount rate is 5%. Suggest to the company in purchasing of Machine X or Machine Y.

17. A Ltd. requires 90,000 units of certain item annually. The cost per unit is Rs. 3, ordering cost is Rs.300 per order and carrying cost Rs. 6 per unit, per year.

Calculate (i) EOQ.

(ii) How many orders to be placed during the year.

(iii) What should the firm do, if the supplier offers discounts as follows :-

Order x discount

4,500 – 5,999 2%

6000 and above 3%

18. 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 is (a)60% and (b)70%

X Ltd. Y Ltd.

r = 15% 20%

Ke = 10% 10%

E = Rs.10 Rs. 10

**Section – C 2 x 20 = 40**

**Answer any TWO questions:**

19. From the following details relating to K ltd.

EBIT 23,00.000

Less: - 8% Debenture Int 80,000

22,20,000

Less:- 11% Loan Int 2,20,000

EBT 20,00,000

Less:- Tax at 50% 10,00,000

EAT 10,00.000

No of Equity shares (Rs 10 each) = 5,00,000 shares Market Price per shares = Rs 20

PE ratio = 10. The company has undistributed Reserves of Rs 20,00.000. It requires Rs, 30.00.000 to redeem the debentures and modernize its plant which has the following financial option-

1. Borrow 12% loan from banks
2. Issue 1,00.000 Equity shares of Rs. 20 each and balance from a 12% bank loans

The Company expects to improve its rate of return by 2% as a result of modernization However the PE ratio is likely to reduce to Rs. 8 if entire amount is borrowed. Advice the company.

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) and(iv) Profitability Index PI.

(v) Discounted pay- back period. Assume the Cost of Capital is @ 10% and Income Tax Rate is @50%.

21. A Ltd,wishes to raise an 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:–

1. Debt Equity Ratio = 3:7
2. Cost of debt (Kd)
3. Upto Rs.1,80,000 = 10%
4. Over Rs.1,80,000 = 16%
5. EPs = Rs.4
6. Dividend payout Ratio = 50%
7. Expected growth rate of dividend = 10%
8. Current market price per share = Rs.44
9. Tax rate = 35%

i,You are required to determine the pattern for raising additional finance assuming the company intends to maintain its existing debt equity ratio.

ii, Determine the cost of additional debt.

iii,Determine the cost of equity capital and retained earnings.

Compute the W.A Cost for additional finance using book value as weights.

22. Existing sales Rs. 2,40,000, Average collection period 30 days. The company proposals to recognize its credit period as follows:

Proposed increase in credit Increase over existing

period beyond 30 days sales

Rs.

15 days 12,000

30 days 18,000

45 days 21,000

60 days 24,000

P.V. Ratio is 33 1/3%. Cost of capital 20%. Evaluate the alternatives.

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