PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

**BCom** DEGREE EXAMINATION MAY 2018
(Sixth Semester)

Branch - COMMERCE (RETAIL MARKETING)

FINANCIAL MANAGEMENT

Time : Three Hours Maximum : 75 Marks

SECTION-A (20 Marks)
Answer ALL questions
ALL questions cam EQl:AL marks (1 0 x 2 = 20)

What do you mean by Financial Management?
What is meant by profit maximisation?
3 State the meaning of capital budgeting
4 Write the meaning of Average of Rate or' Return,
5 What is meant by Cost of Capital'?
6 What do you mean by Average cost?
Give the formula for operating lever, w.
8 What do you mean by Financial bever.ise?
Q State the meaning of working capital management.
10 What is meant by Receivables Management?

SECTION - B (25 Marks)
Answer ALL Questions
ALL Questions Carry **EQUAL** Marks ( 5 x 5 = 25 )

i i a Explain the basic objectives of Financial Management,

OR

Explain the significance of Financial Management.

Project Y has an initial investment of Rs. 5,00,000. Its cash flows tor 5 years are Rs. 1,50,000, Rs. L80.0t.KJ. Rs. 1,50,000, Rs. 1,32.000 and Rs. 1.20,000. Determine the payback period.

OR

You are required to find out tiro net present value of the following project, assuming that the cost of capital is 5 o .•> and the initial investment is Rs. 1,600.

| Y ear | Project net cash flows |
|---|---|
| i | 800 |
| ^ | 800 |
| J | 400 |
| 4 | 200 |

| Year : | i 2 | a | 4 |
|---|---|---|---|
| PV factor 10% : | 0.909 0.826 | 0.751 | 0.683 |

13 a Sakthi Ltd issued 20,000 8% debentures of Rs. 100 each on 1bt April 2016. The cost of issue was Rs. 50.000. the company's tax rate is 35%. Determine the cost of debentures (before a? we'l as after tax) if they were issued (i) at par (ii) at a premium of 10%.

OR

b M Ltd issued 60,000, 15° o irredeemabaie preference shares of Rs. 100 each, the issue expenses were Rs. 60.000. Determine the eost of preference share capita! if shares are issued (i) at par (ii) at discount of 5%.

14 a Martin Ltd., has the following capital structure :

| | | |
|---|---|---|
| 25.000 | Equity shares of Rs. 10 each | Rs. 2,50,000 |
| 2.000 | 9% pref. shares of Rs, 100 each | Rs. 2,00,000 |
| 3.000 | 10% debentures of Rs. 100 each | Rs. 3,00,000 |

The company's EBIT is Rs. 1,25,000. Calculate the financial leverage assuming that the company is in 40% tax bracket.

'OR

Cont...

14 Cont...

b Anderson Ltd is considering a plan to finance a project costing Rs. 50 lakh. The details are

| | Plan (Rs. in lakh) |
|---|---|
| Equity share capital (Rs 100 per share) | 20 |
| 12% debentures | 30 |
| | 50 |

Sales for the first two years of operations are projected at Rs. 120 lakhs and Rs.150 lakhs respectively EBIT is expected to be 15% of sales. Corporate taxation is 15% calculate the Eps of the plan for two years.

15 a The Annual demand for a product is 6,400 units. The unit cost is Rs. 6 and inventory carrying cost per unit per annum is 25% of the average inventory value. If the cost of procurement is Rs. 75. Determine (i) EOQ (ii) Number of orders per annum.

OR

b Explain the long term sources of working capital.

## SECTION - C (30 Marks)

Answer an;.' THREE Questions

ALL Questions Carry EQUAL Marks ( 3 x 1 0 = 30)

16 Explain the functional areas of Financial Management.

17 X Ltd is considering in a project requiring a capital outlay of Rs. 8,00,000. Forecast for annual net incomes after depreciation but before tax are as follows :

| Year : | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Profits (Rs.) : | 4.00.000 | 4.00,000 | 3.20.000 | 3.20.000 | 1.60.000 |
| PV factor 10% : | C.909 | 0.826 | 0.751 | 0.683 | 0.621 |

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

You are required to c\aluate me project according to each of the following methods :

(i) Payback period.
(ii) Net present value method taking cost of capital as 10%.
(iii) Profitability Index method.

18 Following information is available with regards to the capita! structure of Edward Ltd. :

| | Amount | After tax cost of capital |
|---|---|---|
| Debentures | 12,00,000 | 5%o |
| Preference share capital | 4,00,000 | 10% |
| Equity share capital | 8,00,000 | 15% |
| Returned earnings | 16,00,000 | |

You are requires to calculate weighted average cost of capital.

IS* A firm has sales of Rs. 15,00,000. Variable cost of Rs. 9.00.000. Fixed cost Rs. 3,00,000 and debt of Rs. 8,00,000 @8%. Calculate its operating, financial and combined leverage.

20 Rose Ltd is engaged in customer retailing. You are required to estimate working capital requirement :

| | |
|---|---|
| Profited annual sales | - Rs. 9,00,000 |
| Percentage of net profit to cost of sales | - 20% |
| Average credit allowed to Debtors | - 1 month |
| Average credit allowed to creditors | - 2 months |
| Average stock carrying (in terms of sales requirements) | - 2 Vi month |

Add 10% to allow for contingencies.

Z-Z-Z END