LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A. DEGREE EXAMINATION – **BUSINESS ADMINISTRATION**

FIFTH SEMESTER – **APRIL 2016**

BU 5509 – FINANCIAL MANAGEMENT

Date: 03-05-2016 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION-A (10*2=20 MARKS)

ANSWER ALL QUESTIONS

1. What is Business Finance?
2. What is meant by Time value of Money?
3. Define the term Capitalisation.
4. What is meant by leverage?
5. What is Cost of Capital?
6. A Ltd issued 50,000; 12% Debentures of Rs.100 each at par. The tax rate is 40% Calculate cost of debt.
7. What is IRR?
8. A project costs Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its pay-back period.
9. Define the term working capital.
10. Give the meaning of Cash.

SECTION-B (4*10=40 MARKS)

ANSWER ANY FOUR QUESTIONS

11. Explain the objectives of Financial Management.
12. Calculate present value factors at 8% p.a for a period of 5 years.
13. State the essentials of an appropriate Capital structure.
14. A firm requires total capital funds of Rs.50 lakhs and has two options: All equity; and Half equity and Half 15% debt. The equity shares can be currently at Rs.100 per share. The expected EBIT of the company is Rs.5,00,000 with tax rate at 40%. Find out the EPS under both the financial mix.
15. Explain the factors determining cost of Capital.
16. What is operating cycle? Explain its significance.
17. Give particulars are:

    Initial investment Rs.20,000 ; Net cash inflows - 1st year Rs.2000 ; 2nd year Rs.2000 : from 3rd year to 10th year Rs.2500 each.

    Work out Net present value with a discount rate at 10% and express whether investment will be worthwhile .

SECTION-C (2*20=40 MARKS)

ANSWER ANY TWO QUESTIONS

18. "Liquidity and profitability are competing goals for the finance managers"- Comment.
19. A firm has sales of Rs.20,00,000 , variable cost of Rs.14,00,000 , fixed cost of Rs.4,00,000 and a debt of Rs.10,00,000 at 10%.
    I. Calculate its operating , financial and combined leverages.
    II. If a firm decides to double its EBIT , how much of a risk in sales would be needed on a percentage basis?

Debt as % of total capital	Cost of equity %	Cost of Debt (before tax) %
0	16	12
20	16	12
40	20	16
60	24	20

20. a) A company issues 10% irredeemable debentures of Rs.1,00,000. The Company is in the 55% tax bracket. Calculate the cost of debt (before as well as after tax) if the debentures are issued at i) par ii) 10% discount and iii) 10% premium.

    b) A company raised preference share capital of Rs.1,00,000 by issue of 10% preference shares of Rs.10 each. Calculate the cost of preference capital when they are issued at i) 10% premium and ii) at 10% discount.

21. A company is considering the following alternative capital projects;

	Project 1	Project 2
Life	3 years	3 years
Capital Cost (Rs)	1,00,000	1,00,000
Earnings before depreciation	Rs.	Rs.
year 1	80,000	20,000
year 2	60,000	70,000
year 3	40,000	1,00,000

Compute profitability under:

i. Pay-back method
ii. Return on investment method
iii. Discounted cash flow method assuming 10% discount rate. Ignore income tax.

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