LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **APRIL 2019**

BU 5509– FINANCIAL MANAGEMENT

Date: 16-04-2019 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART – A

Answer ALL Questions: 10 x 2 = 20

1. Define Financial Management.

2. State the purpose of short term finance

3. A project has an initial investment of Rs.2,00,000. It will produce cash flows after tax of Rs.50,000 per annum for six years. Compute the payback period for the project.

4. A firm requires total capital funds of Rs.50 lacs and has two options; All equity; and Half equity and Half 15% debt. The equity shares can be currently issued 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.

5. What is capital budgeting?

6. Glenn ltd., has surplus cash of Rs.25 lakh. It intends to invest the amount in short term marketable securities. As a transaction cost, it will have to spend Rs.75,000. If the securities invested have an yield of 10%, which of the following periods would you choose for investment? A) 1 month B) 4 Months.

7. What do you understand by time value of money?

8. Write short note on indifference point.

9. How will you compute cost of retained earnings?

10. What is operating cycle?

PART – B

Answer any FOUR Questions: 4 x 10 = 40

11. Explain the objectives and scope of financial management.

12. A company was recently formed to manufacture a new product. It has the following capital structure:

	Rs.
i) 9% Debenture	10,00,000
ii) 7% Preference shares	4,00,000
iii) Equity shares (48,000 shares)	16,00,000
iv) Retained earnings	10,00,000

The market price of equity share is Rs.80. A dividend of Rs.8 per share is proposed. The company has marginal tax rate of 50% and shareholder's individual tax rate is 25%. Compute after tax weighted average cost of capital of the company.

13. A firm sells product at Rs.12 per unit. Its variable cost is Rs.8 per unit. Present sales are 1,000 units. Calculate the operating leverage in each of the following situations:

i) When fixed cost is Rs.1,000

ii) When fixed cost is Rs.1,200

iii) When fixed cost is Rs.1,500

14. From the following project details, calculate the sensitivity of the (a) Project cost, (b) Annual cash flow, and (c) Cost of capital. Which variable is the most sensitive?

Project Cost	Rs.12,000	Annual cash flow	Rs.4,500
Life of the project	4 years	Cost of capital	14%

The annuity factor at 14% for 4 years is 2.9137 and at 18% for 4 years is 2.6667.

15. Mahindra Ltd. Purchases and sells goods entirely on credit basis. The credit period allowed to it by suppliers is 45 days and firm allows 60 days to its customers. However, in actual practice, the average age of the accounts payable is 60 days and the average age of account receivables is 70 days. The average age of firm's inventory is 80 days.

Required:

a) Calculate the firm's cash cycle.

b) Determine cash turnover assuming 360 days in a year.

16. Explain the significance of cost of capital.

17. Discuss the various sources of short term finance.

PART – C

Answer any TWO Questions: **2x 20 = 40**

18. C.T. ltd., is considering the purchase of a new machine. Two alternative machines are available, X and Y, each costing Rs.78,000. The cash inflows are expected to be as follows:

Year	Cash inflows Machine X Rs.	Machine Y Rs.
1	35,000	45,000
2	35,000	33,000
3	22,000	22,000
4	12,000	12,000

The company has the expected return on capital of 10%. Risk premium rates are 4% and 8% respectively for machines X and Y which machine should be preferred?

19. Dubin ltd., has equity share capital of Rs.12,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.6,00,000 for expansion-cum-modernisation scheme. The company plans the following financing alternatives:

Plan A – By issuing equity shares only

Plan B – Rs.2,00,000 by issuing equity shares and Rs.4,00,000 through debentures @ 10% p.a.

Plan C – Rs.2,00,000 by issuing equity shares and Rs.4,00,000 by issuing 9% preference shares.

Plan D – By raising term loan only at 10% p.a.

You are required to suggest the best alternative giving your comment assuming that the estimated EBIT expansion is Rs.2,25,000 and corporate rate of tax is 40%

20. Malaiya Ltd. Issued 60,000 15% irredeemable preference shares of Rs.100 each. The issue expenses were Rs.60,000. Determine the cost of preference capital if shares are issued a) at Par b) at a premium of 10% and c) at a discount of 5%.

21. What is working capital management? Explain the factors determining working capital.

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