LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **NOVEMBER 2018**

BU 5509– FINANCIAL MANAGEMENT

Date: 23-10-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART A

ANSWER ALL THE QUESTIONS (10 X 2 = 20)

1. What is Trading on equity ?
2. What is Composite leverage ?
3. Distinguish between profit and wealth maximization.
4. What is Doubling period ?
5. A company issues 10% debentures for Rs. 4,00,000. Rate of tax is 55%. Calculate the cost of debt (after tax), if the debentures are issued at Par.
6. What is Weighted Average Cost of capital ?
7. What is Capital Budget ?
8. Calculate the pay back period for a project which requires a cash outlay of Rs.1,00,000 and generates cash inflows of Rs.25,000 Rs.35,000,Rs.30,000 and Rs.25,000 in the first,second,third and fourth years respectively.
9. What is Operating cycle ?
10. A company has the following selected assets and liabilities. You are required to calculate working capital. Cash Rs. 1,35,000; Retained earnings Rs. 3,00,000; equity share capital Rs. 5,00,000; debtors Rs. 1,80,000; Inventory Rs. 3,33,000; Debentures Rs.3,00,000; Provision for taxation Rs. 1,71,000;
Expenses outstanding Rs.63,000; Land and building Rs. 9,00,000; Goodwill Rs.90,000; furniture Rs. 75,000; Creditors Rs. 1,17,000.

PART B

ANSWER ANY FOUR QUESTIONS: (4 x 10 = 40)

11. What are the sources of short term financing? Explain them briefly.
12. What are the various factors influencing the pattern of capital structure?
13. From the given information you are required to calculate Operating Leverage
Financial Leverage and Combined Leverage.

Particulars	X	Y	Z
Out put (in Units)	30,00,000	7,50,000	50,00,000
Fixed Cost Rs.	35,00,000	70,00,000	7,50,000
Variable cost per unit (Rs.)	1.00	7.50	0.10
Interest Expenses (Rs.)	2,50,000	4,00,000	-
Selling price per unit (Rs.)	3	25	0.50

14. Assuming no taxes and given the Earnings before Interest and Taxes (EBIT) Interest (I) at 10% and equity capitalization rate (Ke) below, calculate the total market value of each firm.

Firms	EBIT (rs.)	I	Ke
A	2,00,000	20,000	12%
B	3,00,000	60,000	16%
C	5,00,000	2,00,000	15%
D	6,00,000	2,40,000	18%

Also determine the weighted average cost of capital for each firm.

15. It is proposed to introduce a new machine to increase the production capacity of department X. two machines are available. Type A and type B. The following information is available.

Details	A (Rs.)	B (Rs.)
Cost of machine	3,50,000	6,30,000
Estimated life (years)	7	10
Estimated savings in scrap p.a.	20,000	32,000
Additional cost of indirect materials p.a.	10,000	16,000
Estimated savings in wages:		
Employees not required	15	20
Wages per employees per annum	10,000	16,000
Additional cost of maintenance p.a.	7,200	12,000
Additional cost of supervision p.a.	24,000	36,000

The rate of taxation can be regarded as 50% of profits. Which machine can be recommended for purchase by using Pay Back period?

16. Calculate the operating cycle of a company which gives the following details relating to its operations:

	Rs.
Raw materials consumption per annum	8,42,000
Annual cost of production	14,25,000
Annual- cost of sales	15,30,000
Average value of current assets held:	
Raw materials	1,24,000
Work-in-progress	72,000
Finished goods	1,22,000
Debtors	2,60,000

The company gets 30 days credit from its suppliers. All sales made by the firm are on credit only. You may take one year as equal to 365 days.

17. Discuss the factors affecting the cost of capital.

PART C

ANSWER ANY TWO OF THE FOLLOWING (2 x 20 = 40)

18. Discuss the functions of the financial manager.
19. Aswathi Ltd desires to purchase a business and has consulted you, and one point on which you are asked to advise them is the average amount of working capital, which will be required in the first year's working. You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies.

			Figures for the year Rs.
1. Average amount locked up in stock:			
Stock of finished product			50,000
Stock of stores, material etc.,			80,000
2. Average credit given:			
Inland sales 6 weeks credit			31,20,000
Export sales 1 ½ weeks credit			7,80,000
3. Lag in payment of wages and other out standings:			
Wages	-	1 ½ weeks	26,00,000
Stores, materials etc.	-	1 ½ months	4,80,000
Rent, royalties etc	-	6 months	1,00,000
Clerical staff	-	½ month	6,24,000
Manager	-	½ month	48,000
Miscellaneous expenses	-	1 ½ months	4,80,000
4. Payment in advance:			
Sundry expenses (paid quarterly in advance)			80,000
5. Undrawn profits on an average throughout the year			1,10,000

Calculate the average amount of working capital required.

20. One plant of a company is doing poorly and is being considered for replacement. Three mutually exclusive plants X, Y and Z have been proposed. The plants are expected to cost Rs.1,00,000 each and have an estimated life of 5 years, 4 years and 3 years respectively and have no salvage value. The company's required rate of return is 10%. The anticipated cash flows after tax for the three plants are as follows:

Year	Plant X (Rs.)	Plant Y (Rs.)	Plant Z (Rs.)
1	25,000	40,000	50,000
2	25,000	40,000	50,000
3	25,000	40,000	5,000
4	25,000	15,000	-
5	95,000	-	-

(i) Rank the proposals applying the methods of payback, ARR and NPV.

(ii) What would be the profitability index if the IRR equaled the return on investment? What is the significance of a profitability index less than one?

(iii) Recommend the project to be adopted and give reasons.

21. A) Murugan Ltd issues 10 % irredeemable preference shares of the face value of Rs.100 each. Flotation costs are estimated at 5% of the expected sale price.

1. What is K if the preference shares are issued at (i) par value, (ii) 10% premium and (iii) 5% discount?
2. Also, compute K in these situations assuming 14% dividend tax.

B) A company has 12% perpetual debt of Rs. 1,00,000. The tax rate is 40 %. Determine the cost of capital (before tax as well as after tax) assuming the debt is issued at (i) par, (ii) 10% discount and (iii) 10% premium. **(10+10)**

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