LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **NOVEMBER 2019**

16/17UBU5MC02 – FINANCIAL MANAGEMENT

Date: 31-10-2019 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION - A (10 X 2 = 20 MARKS)
(Answer all the Questions)

1.Define financial management.

2.What are the basic objectives of financial management?

3.What is venture capital financing?

4.Define capital structure.

5.Define cost of capital.

6. The market price of an equity share of X Ltd. is Rs. 120. The expected equity dividend is Rs. 2.40 per share. The shareholders anticipate a growth of 10% in dividends. You are required to assess the cost of equity capital.

7.What are the objectives of capital budgeting?

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

9. Dewey ltd. has an EBIT of Rs.4, 50,000. The cost of debt is 10% and the outstanding debt is Rs.12, 00,000. The overall capitalization rate is 15%. Calculate the market value of the firm under Net Operating Income approach.

10. What is cost of debt?

SECTION - B (4X10=40 MARKS)
(Answer Any Four Questions)

11. Explain the techniques of Time value of money.

12.AishwayaLakshmi has entered into an agreement that will fetch her Rs.60,000 p.a. for the next four years. Determine the present value of the future cash inflows at 20% discount rate.

13. Discuss the factors determining the capital structure of a firm.

14. Parveen Ltd., is expecting an annual EBIT of Rs.2,00,000. The company has Rs.2,00,000 in 10% debentures. The equity capitalization rate (ke) is 12%. Measure the total value of the firm and overall cost of

capital. What happens if the company borrows Rs.2,00,000 at 10% to repay equity capital using Net Income Approach.

15.Following information is available with regards to the capital structure of E Ltd.

	Amount (Rs.)	After tax cost of capital %
Debentures	12,00,000	5%
Preference share capital	4,00,000	10%
Equity share capital	8,00,000	15%
Retained earnings	16,00,000	12%

Estimate the weighted average cost of capital (WACC).

16. Describe the purposes served by Short term finance.

17. Explain the need for capital budgeting.

Section C (2X 20 = 40 marks)
Answer any Two questions

18. From the following capital structure of a company, compute the overall cost of capital using i) Book value weights and ii) Market value weights

	Book value Rs.	Market value Rs.
Equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:
Equity share capital : 14%
Retained earnings : 13%
Preference share capital : 10%
Debentures : 5%

19. Abishek Co. Ltd., is considering the purchase of a new machine. Two alternative machines (X and Y) have been suggested each costing Rs. 4, 00,000. Earnings after taxation are expected to be as follows:

Year	Cash inflow	
	Machine X Rs.	Machine Y Rs.
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company has a target rate of return on capital of 10% and on this basis, you are required to compare the NPV of the machines and state which alternative is preferable. The present value of Re. 1 (to be received at the end of each year).

Year	1	2	3	4	5
PV	0.909	0.826	0.751	0.683	0.621

20.(a) A firm requires total capital funds of Rs. 50 lakhs all equity. 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.

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20.(b) Lakshmi ltd., has a share capital of Rs.1, 00,000 divided into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50, 000.

1. Issue of 10% debentures
2. Issue of 5,000, 12% preference shares of Rs.10 each.
3. Issue of 5,000 shares of Rs.10 each

The earnings before interest and taxes (EBIT) are Rs.30, 000 p.a.

Calculate the effect on earnings per share assuming EBIT continues to be the same even after the capital expenditure.

21. Discuss sources of long term finance.

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