

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034



U.G. DEGREE EXAMINATION – ALLIED

FIFTH SEMESTER – NOVEMBER 2019

16/17UBC5ES01 – FINANCIAL MANAGEMENT

Date: 06-11-2019

Dept. No.

Max. : 100 Marks

Time: 09:00-12:00

Section – A

Answer ALL the questions

(10X2=20)

- 1) What is Financial Management?
- 2) Define average rate of return.
- 3) Write a note on bank credit.
- 4) Write about the significance of cost of capital.
- 5) Define the term capital structure.
- 6) What do you mean by WACC?
- 7) Write a note about under capitalisation.
- 8) Define capital budgeting.
- 9) Define leverage.
- 10) State the meaning of operating leverage.

Section – B

Answer any FOUR questions

(4X10=40)

11) R ltd has a capital structure consisting of equity capital only. It has 50,000 equity shares of Rs.10 each. Now the company wants to raise a fund for Rs.1,25,000 for its various investment purposes after considering the following three alternative methods of financing.

- i) If it issues 12,500 equity shares of Rs.10 each.
- ii) If it borrows a debt of Rs.1,25,000 at 8% interest and
- iii) If it issues 1,250- 8% preference shares of Rs.100 each.

Show the effect of EPS under various methods of financing if EBIT are Rs.1,56,250 and the rate of taxation is @ 50%.

12) Calculate operating, financial and combined leverage for the following firms;

Particulars (RS)	P	Q
Output (units)	300000	75000
Fixed cost	350000	700000
Variable cost	1	7.50
Interest expenses	25000	40000
Unit selling price	3	25

13) The following is the capital structure of a firm.

Sources of finance	Amount (Rs)	C/C
11% preference shares	1,00,000	11%
Equity share capital	4,50,000	18%
Retained earnings	1,50,000	18%
16% Debt	3,00,000	8%

Calculate the weighted average cost of capital of the firm, based on the book value weights.

14) Project 'M' initially costs Rs.50,000. It generates the following cash flows.

Year	Cash Inflow	Present value of Re.1 at 10%
1	18,000	0.909
2	16,000	0.826
3	14,000	0.751
4	12,000	0.683
5	10,000	0.621

Taking the Cut-off rate as 10%, suggest whether the project should be accepted or not.

15) Explain the factors determining capital structure.

16) Enumerate role of finance manager.

17) Describe the types of capital budgeting decisions.

Section – C

Answer any TWO questions

(2X20=40)

18) Explain the long term sources of finance and its advantages.

19) X Ltd is considering a major expansion of its production facilities and the following alternatives are available.

particulars	A	B	C
Share capital	50,00,000	20,00,000	10,00,000
14% debentures	-	20,00,000	15,00,000
Loans	-	10,00,000	25,00,000

Expected rate of return before tax is 25%. The rate of dividend of the company is not less than 20%. The company at present has low debt. Corporate taxation is 50%. Calculate EPS.

20) A Ltd issued 10% redeemable preference shares of Rs.100 each, redeemable after 10 years. The flotation costs are 5% of the nominal value. Compute the effective cost to the company if the issue is made at (a) par (b) a premium of 5%.

21) A company has to choose one of the two alternative machines. Calculate the Pay back period and suggest the profitable machine.

Machine	M (Rs)	N (Rs)
Cost of machine	2,00,000	2,00,000
Working life (years)	5	5
Profit before depreciation & tax		
I year	60,000	80,000
II year	70,000	1,00,000
III year	80,000	80,000
IV year	60,000	70,000
V year	40,000	60,000
Rate of income tax	50%	50%

\$\$\$\$\$\$\$\$\$\$