LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **COMMERCE**

THIRD SEMESTER – **APRIL 2014**

CO 3201 - FINANCIAL MANAGEMENT

Date : 10/04/2014 Dept. No. Max. : 100 Marks
Time : 09:00-12:00

SECTION – A

Answer all the questions **(10x2=20)**

1. What do you mean by the term Operating Leverage?
2. Explain the term 'Dividend'.
3. List any two sources of security financing.
4. What is Operating Cycle?
5. State any two merits of issuing debentures.
6. Interest = Rs.6,000 Tax rate = 40% No. of equity share = 20,000 shares. Calculate the likely level of EBIT if EPS is Rs. 2
7. *Fill in the blanks:*
   a) __________ refers to that EBIT level at which EPs remains the same irrespective of the debt-equity mix.
   b) The policy concerning quantum of profits to be distributed as dividends is termed as __________.
8. *Say true or false:*
   a) A finance manager's concern must be to maintain liquidity rather than profitability.
   b) Raising funds through debentures is cheaper as compared to raising funds through shares.
9. Following are the details regarding the capital structure of a company:

Type of capital	***Market value Rs.***	***After tax cost***
Debentures	30,000	6%
Preference capital	20,000	10%
Equity capital	1,00,000	14%

   You are required to determine the weighted average cost of capital using market value as weights.

10. A Ltd is considering a project which requires Rs.1,20,000 initial investment and it will generate an annual cash inflow of Rs.16,000 for ten years. Compute the pay-back period.

SECTION – B

Answer any four questions **(4x10=40)**

11. Explain Payback period with its pros and cons.
12. What is internal financing? Explain the different sources of internal financing.
13. Explain the significance of capital budgeting decision in a company.

14. State and explain the advantages of issuing bonus shares.

15. Calculate the Degree of operating leverage, degree of financial leverage and the degree of combined leverage from the following data:

Output (in units)	1,50,000
Fixed costs	Rs.1,00,000
Variable cost per unit	Re.1.50
Interest expenses	Rs.30,000
Selling price per unit	Rs.3

16. Mala Ltd is considering two projects. Each requires an investment of Rs.15,000. The CFAT from investment in the two projects X and Y are as follows:

Year	**X Rs.**	**Y Rs.**
1	9,000	6,000
2	7,000	8,000
3	4,000	5,000
4	3,000	4,000
5	-	5,000

Calculate Payback period for projects X and Y.

17. The following data relates to Ganesh Ltd:
The company wants to implement a new project for which Rs.20 lakhs is needed. The following two options are identified:

Option (i) Equity shares @ Rs.100 each	Rs.20 lakhs
Option (ii) Equity shares @ Rs.100 each	Rs.10 lakhs
10% Preference shares @Rs.100 each	Rs.5 lakhs
8% Debentures @ Rs.100 each	Rs.5 lakhs

Calculate the EBIT at the indifference point. Assume 30% tax.

SECTION – C

Answer any two questions **(2x20=40)**

18. Discuss the various factors affecting working capital management of a company.

19. Raghul limited company is considering a capital investment proposal of Rs.1,00,000. The life span of the project is 5 years. The cost of capital is 10%. Assume tax rate is 50%. From the Cash flow after tax
Compute: a) Average rate of return b) Net present value c) Profitability index

Year	**Cash flow after tax Rs.**	**PV Factor @ 10%**
1	24,000	0.909
2	32,000	0.826
3	58,000	0.751
4	27,000	0.683
5	25,000	0.621

20. Determine the Working Capital required to finance the production of 24000 units per annum from the following details:

Selling price per unit	Rs.80
Raw material per unit	Rs.30
Direct labour per unit	Rs.10
Overheads per unit	Rs.20

Raw material is in stock for 1.5 month and finished goods in stores for 2 months.
Material in process for 1 month.
Cash balance is expected to be Rs.3,00,000.
Credit allowed to debtors and received from suppliers is 1 month. Work in progress is 50% completed.

21. Jacob Ltd has the following capital structures:

Equity capital Rs.10 each	Rs.6,00,000
8% Preference capital Rs.100 each	Rs.2,00,000
10% Debentures (Rs.10 each)	Rs.2,00,000

The next expected dividend is Rs. 3 per share. The dividend is expected to grow at 5% per annum. Market price of the share is Rs.15. Assume tax rate is 40%. Calculate weighted average cost of capital using book value as weights.

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