



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A. & B.COM. DEGREE EXAMINATION – BUSINESS ADMIN. & COR. SEC.

THIRD SEMESTER – APRIL 2016

CO 3201 - FINANCIAL MANAGEMENT

Date: 04-05-2016
Time: 09:00-12:00

Dept. No.

Max. : 100 Marks

SECTION – A

Answer all the questions

(10x2=20)

1. What is Operating Cycle?
2. Explain the term working capital
3. State any two advantages of issuing equity capital
4. What is loan financing?
5. Explain the meaning of the term cost of capital.
6. What is Operating Leverage?
7. List the techniques of Capital Budgeting.
8. How to tradeoff between liquidity and profitability?
9. Interest = `6,000 Tax rate = 40% No. of equity share = 20,000 shares. Calculate the likely level of EBIT if EPS is Rs. 2
10. Explain the importance of finance.

SECTION – B

Answer any four questions

(4x10=40)

11. State and explain the advantages of issuing bonus shares.
12. Differentiate between Net present value and Internal rate of return.
13. What are the different sources of internal financing?
14. Explain the theories regarding impact of dividend decision on the valuation of a firm.
15. Calculate the Degree of operating leverage, degree of financial leverage and the degree of combined leverage from the following data:

Output (in units)	2,00,000
Fixed costs	Rs.1,50,000
Variable cost per unit	Rs.2.00
Interest expenses	Rs.50,000
Selling price per unit	Rs.6

16. Determine the Working Capital required to finance the production of 12000 units per annum from the following details:
Selling price per unit Rs.60
Raw material per unit Rs.20
Direct labour per unit Rs.10
Overheads per unit Rs.10
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.2,00,000.
Credit allowed to debtors and received from suppliers is 2 months. Work in progress is 50% completed.

17. The following data relates to Varun Ltd:

Existing capital structure:

20,000 equity shares of Rs. 100 each

30,000 8% Preference shares of Rs.10 each

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

8% debentures @ Rs.100 each Rs.10 lakhs

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

18. A project needs an investment of Rs.1,50,000. The cost of capital is 15%. The cash inflows after tax from the project are as under:

Year	CFAT
1	45,000
2	65,000
3	69,000
4	59,000
5	38,000

Calculate the Internal Rate of Return and Suggest whether the project should be accepted or not.

SECTION – C

Answer any two questions

(2x20=40)

19. Explain the objectives and functions of financial management in detail.

20. What are the factors determining the dividend policy.

21. Latha Ltd has the following capital structures:

Equity capital Rs.10 each Rs.8,00,000

10% Preference capital Rs.100 each Rs.2,00,000

The next expected dividend is Rs. 2 per share. The dividend is expected to grow at 5% per annum.

Market price of the share is Rs.10. Assume tax rate is 30%. Calculate weighted average cost of capital using book value as weights.

22. Shahul limited company is considering a capital investment proposal of Rs.1,20,000. 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.
1	49,000
2	32,000
3	56,000
4	28,000
5	25,000
