LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

THIRDSEMESTER – APRIL 2017

CO 3201- FINANCIAL MANAGEMENT

Date: 04-05-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART - A

Answer all Questions: **(10*2=20)**

1. Define Financial Management.
2. What is Optimum Capital Structure?
3. Write a short note on NPV Method.
4. What is Operating Cycle?
5. What is Financial Break Even Point?
6. A company has sales of Rs. 1 lakh. The variable costs are 40% of the sales while the fixed operating costs amount to Rs. 30,000. The amount of interest on long-term debt is Rs. 10,000. You are required to calculate the composite leverage and illustrate its impact if sales increase by 5%.
7. A project costs Rs. 20,00,000 and yields annually a profit of Rs. 3,00,000 after depreciation at 12.5% but before tax at 50%. Calculate the pay-back period.
8. A company has 10% redeemable preference shares of Rs. 1,00,000 redeemable at the end of the 10th year from the year of their issue. The underwriting cost came to 2%. Calculate the effective cost of preference share capital.
9. ABC Ltd. expects its cost of goods sold for 2000-2001 to be Rs. 600 lakhs. The expected operating cycle is 90 days. It wants to keep a minimum cash balance of Rs. 1 lakh. What is the expected working capital requirement? Assume a year consists of 360 days.
10. Write a short on Internal Rate of Return.

PART - B

Answer any four Questions **(4*10=40)**

11. Explain the factors which determine working capital requirement.
12. Explain the importance of capital budgeting.
13. a) Explain the objective of Financial Management.

    b) Explain the role of Finance Manager.

14. A company has to select one of the following two projects:

Particulars	(Rs.) Project A	(Rs.) Project B
Cost	11,000	10,000
Cash inflows		
Year 1	6,000	1,000
2	2,000	1,000
3	1,000	2,000
4	5,000	10,000

Using the internal rate of return method, suggest which project is preferable.

15. The following information has been extracted from the balance sheet of Fashion Ltd. as on 31-3-2009:

	(Rs. lakhs)
Equity	400
12% Debentures	400
Term loan (interest @ 18%)	1,200
	2000

a) Determine the weighted average cost of capital of the company. It had been paying dividends at a consistent rate of 20% p.a.

b) What difference will it make if the current price of the Rs. 100 share is Rs. 160?

c) Determine the effect of Income-tax on the cost of capital under both premises.

16. The board of Directors of Ruby Ltd. Requests you to prepare a statement showing the working capital requirement forecast for a level of activity of 1,56,000 units of production. The following information is available for your calculation:

	(Rs. Per unit)
Raw materials	90
Direct labour	40
Overheads	75
	205
Profit	60
Selling price per unit	265

a) Raw materials are in stock on average one month.

b) Materials are in process, on average 2 weeks.

c) Finished goods are in stock, on average one month.

d) Credit allowed by suppliers – one month.

e) Time lag in payment from debtors – 2 months.

f) Lag in payment of wages – 1 ½ Weeks.

g) Lag in payment of overheads – one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs.60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

17. Prepare the income statement of a firm which gives the following details relating to its operations:

Operating leverage	4
Financial leverage	2
Annual interest paid	Rs. 10 lakhs
Contribution/ sales	0.4
Tax rate	40%

PART - C

Answer any two Questions **(2*20=40)**

18. You are required to determine to determine the weighted average cost of capital (Ko) of the K.C. Ltd. Using (i) book value weights; and (ii) market value weights. The following is available for your per usual. The K.C. Ltd.'s present book value capital structure is:

		(Rs.)
Debentures	(Rs. 100 per debenture)	8,00,000
Preference shares	(Rs.100 per share)	2,00,000
Equity shares	(Rs. 10 per share)	10,00,000
	Total	20,00,000

All these securities are traded in the capital markets. Recent prices are debentures @Rs.110, preference shares @Rs. 120 and equity shares @Rs.22. Anticipated external financing opportunities are:

i. Rs. 100 per debenture redeemable at par : 20-year maturity, 8% dividend rate, 4% flotation costs, sale price Rs.100.

ii. Rs. 100 per debenture redeemable at par : 15-year maturity, 10% dividend rate, 5% flotation costs, sale price Rs.100.

iii. Equity shares Rs. 2 per share flotation costs, sale priceRs. 22. In addition, the dividend expected on the equity share at the end of the year Rs. 2 per share, the anticipated growth rate in dividends is 5% and the company has the practice of paying of paying all its earnings in the form of dividends. The corporate tax rate is 50%.

19. The existing capital structure of ABC Ltd. Is as follow:

	Rs.
Equity shares of Rs. 100 each	40,00,000
Equity shares of Rs. 100 each	10,00,000
Retained earnings	25,00,000
9% Preference shares	25,00,000
7% Debentures	

Company earns a return of 12% and the tax on income is 50%.

Company wants to raise Rs. 25,00,000 for its expansion project for which it is considering following alternatives:

(i) Issue of 20,000 Equity shares at a premium of Rs. 25 per share; (ii) Issue of 10% preference shares; (iii) Issue of 9% Debentures.

(ii) Projected that the P/E ratios in the case of equity, preference and debenture financing 20, 17 and 16 respectively.

Which alternative would you consider to be the best. Give reasons for your choice.

20. The prudent Company's most recent Balance Sheet is as follows:

Liabilities	Rs.	Assets	Rs.
Equity capital (Rs. 10 per share)	60,000	Net fixed assets	1,50,000
	80,000	Current assets	50,000
10% Long-term debt	20,000		
Retained earnings	40,000		
Current liabilities	Total 2,00,000		Total 2,00,000

The company's total assets turnover ratio based on sales is 4.0. Its fixed operating costs are Rs. 1,00,000. Its variable operating costs ratio is 40%. Income-tax rate is 40%.

You are required to: (i) Calculate all three types of Leverages, (ii) Determine likely level of EBIT of EPS is: (a) Re.1 (b) Rs, 3 and (c) Re,0.

21. Write short notes on

a) Point of Indifference
b) Pay-back Period
c) Cut-off Rate
d) Implicit Cost

****