LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Sc.DEGREE EXAMINATION – **COMPUTER SCIENCE& MATHEMATICS**

FOURTHSEMESTER – APRIL 2018

CO 4211- FINANCIAL MANAGEMENT

Date: 02-05-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION A

Answer the following questions: (10 X 2 = 20)

1. Give the meaning of business finance.
2. What is meant by Capital structure?
3. Mention any two institutions which provide long term credit to industries.
4. Define net working capital
5. What is Trade credit?
6. Give the meaning of the term leverage.
7. Earnings before tax is Rs.2,00,000, number of shares outstanding is 15,000, the tax bracket is 50%. Calculate Earnings per share.
8. Firm A has no debt and earns an EBT of Rs. 1,20,000 each. The equity capitalization rate is 10% and the corporate tax is 60%. Calculate the market value of the firm.
9. Excel Industries has Rs.1,00,000 debt, it pays 10% interest on borrowed funds and is in the 55% tax bracket. Calculate the cost of debt, if issued at 10% discount.
10. Stock holding: Raw material: 2 months, Work in progress: 15 days, Finished goods: 1 month, Average debt collection period: 2 months, Average payment period: 45 days. Compute no of operating cycles in a year.

SECTION B

Answer **any four** questions: (4 X 10 = 40)

11. Explain the determinants of working capital requirements.
12. Explain the role of finance manager.
13. What are the different sources of long term financing? State briefly the merits of each source of long term financing.
14. The following data pertain to Good luck Limited:
    Existing Capital Structure: 10 lakhs, Equity Shares of Rs.10 each, Tax Rate: 50 per cent.
    Good luck Limited plans to raise additional capital of Rs.100 lakhs for financing an expansion project. It is evaluating two alternative financing plans:
    (i) Issue of 10,00,000 equity shares of Rs.10 each, and
    (ii) Issue of Rs.100 lakh debentures carrying 14 per cent interest.
    You are required to compute indifference point.

15. A limited company has the following capital structure:

		Rs.
Equity Share Capital (2,00,000 Shares)		40,00,000
6% Preference shares		10,00,000
8% Debentures		30,00,000
	80,00,000	

The market price of the company's equity shares is Rs.20. It is expected that the company will pay a current dividend of Rs.2 per share which will grow at 7 per cent forever. The tax rate may be presumed at 50 per cent. You are to compute the following,

a. A weighted average cost of capital based on existing capital based on existing capital structure.
b. The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10 per cent debentures. This would result in increasing the expected dividend to Rs.3 and leave the growth rate unchanged but the price of share will fall to Rs.15 per share.

16. A company has estimated that for a new product the selling price would be Rs.100 per unit. The variable costs would be 40% of sales and Fixed costs amount to Rs. 30,000. The amount of interest on long term debt is Rs.10,000. You are required to calculate
a. Operating leverage b. Financial leverage c. Combined leverage.
if the sales volume would be 2500 units and 3000units.

17. Two firms X and Y are identical in all respects including risk factors except for debt/ equity. Has issued 10% debentures of Rs.18 lakhs while Y has issued only equity. Both the firms earn 20% before interest and taxes on their total assets of Rs. 30 lakhs.
Assuming a tax rate of 50% and capitalization rate of 15% for an all equity firm, compute the value of companies X and Y using net income approach.

SECTION C

Answer **any two** questions: (2 X 20 = 40)

18. Explain the meaning of financial management. What are its objectives? State the importance of financial management.

19. From the following information, prepare an estimate of working capital requirements:

Projected Annual Sale	52,000 units
Selling price	Rs. 60 per unit
Raw material	40% of selling price
Direct labour	30% of selling price
Overheads	20% of selling price

Raw materials remain in stock on an average for 3 weeks. Goods remain in production process for 4 weeks on an average. 5 weeks are allowed to debtors to pay while firm gets 3 week credit from suppliers. Finished goods remain in stock for one month. Lag in the payment of wages and overhead expenses is two weeks. 50% of the sales are on cash basis. Assume that goods in process are 100% complete with respect to materials but only 50% in conversion costs.

20. A company's capital strucuture consists of the following:

Equity shares of Rs.100 each	Rs.20,00,000
Retained earnings	Rs.10,00,000
9% Preference shares	Rs.12,00,000
7% Debentures	Rs. 8,00,000

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs.25 lakhs to finance its expansion programme for which following alternatives are available to it:

i. Issue of 20,000 equity shares at a premium of Rs. 25 per share
ii. Issue of 10%preference shares
iii. Issue of 8% debentures

It is estimated that the P/E ratios in the case of Equity, Preference and Debenture financing would be 21.4, 17 and 15.7 respectively.
Which of the three financing alternatives would you recommend and why?

21. A company is considering an investment proposal to install a new machine. The project will cost Rs.50,000 and will have a life of 5 years and no salvage value. The company's tax rate is 50% and no investment allowance is allowed. The firm uses straight line method of depreciation. The

estimated net income before depreciation and tax from the proposed investment proposal is as follows:

Year	1	2	3	4	5
Net income before Depreciation and Tax	10,000	11,000	14,000	15,000	25,000
PV factor @10%	0.909	0.826	0.751	0.683	0.621

Compute the following :

a. Pay back period b. Average rate of return c. Net present value d. Profitability index