LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com., B.B.A. DEGREE EXAMINATION – **CORPORATE SECR.& BUSIN. ADMIN.**

THIRD SEMESTER – NOVEMBER 2011

CO 3201 - FINANCIAL MANAGEMENT

Date : 11-11-2011 Dept. No. Max. : 100 Marks
Time : 9:00 - 12:00

SECTION – A

Answer all the following questions: **(2x10=20)**

1. Explain the term “Dividend”
2. What is operating cycle?
3. What do you mean by pay back period?
4. Net working capital =__________________
5. Calculate the Raw material holding period in days from the following:

Raw material on 1.3.2010	Rs.200
Raw material on 30.04.2011	Rs.200
Raw material purchased during the year	Rs.450
Period covered	365 days

6. Caliber Ltd. has issued Rs.400 preference shares redeemable at a premium of 7% with 13 years maturity. Coupon rate is 9%. Floatation cost is 3%. Calculate the cost of preference shares.
7. Explain the cost of retained earnings.
8. List out the different sources of internal financing
9. What is meant by operating leverage?
10. Give the merits of issuing bonus shares.

SECTION – B

Answer any five questions: **(5x8=40)**

11. Explain the term “security financing”. State the merits of different types of security financing?

12. State and explain the merits of Net present value.

13. Explain the factors affecting the capital structure of a company.

14. The following is the balance sheet of zee co.,

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

The company’s total assets turnover ratio is 3. Its fixed operating cost are Rs.1,00,000 and its variable operating costs ratio to sales is 30%. The income tax rate is 50%. Calculate operating, financial and combined leverages.

15. X Ltd is contemplating investment in a project which requires an initial investment of Rs.1,50,000. The cost of capital is 10%. The Cash flow after tax are as under:

Year	**Rs.**
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Calculate the payback period and discounted payback period.

16. Zebra Ltd has the following capital structures:

Equity capital Rs.10 each	Rs.20 lakhs
8% Preference capital Rs.100 each	Rs.15 lakhs
9% Debentures (Rs.10 each)	Rs. 5 lakhs

The next expected dividend is Rs. 7 per share. The dividend is expected to grow at 8% per annum. Market price of the share is Rs.16. Assume tax rate is 50%. Calculate weighted average cost of capital using Book value as weights.

17. a) Frizz Ltd considers taking up a new project which requires a capital of Rs.30 lakhs. The following two options are identified:

Option a:

Equity shares @ Rs.100 each	Rs.25 lakhs
Term loan @ 11%	Rs. 5 lakhs

Option b:

Equity shares @ Rs.100 each	Rs.20 lakhs
12% preference shares @Rs.100 each	Rs.10 lakhs

Assuming tax rate is 35%, **a)** Calculate the EBIT level at which investors would be indifferent to the two options.

b) The degree of operating leverage is 4 and degree of financial leverage is 3. By what percentage will EPS decrease if sales decrease by 12 per cent?

18. Sunny Ltd. is proposing to take up a project which will need an investment of Rs. 1,40,500. The net cash inflows after tax are as under:

Year	Rs.
1	30,000
2	35,000
3	60,000
4	35,000
5	20,000

If the cost of raising capital is 12%, would you recommend accepting the project under IRR method?

SECTION – C

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

19. Discuss the functions of finance manager of a company in detail.

20. Determine the Working Capital required at Cash Cost from the following details:

The production of 60000 units

Selling price per unit	Rs.100
Raw material per unit	Rs.40
Direct labour per unit	Rs.10
Overheads per unit	Rs.30

Raw material is in stock for 1.5 months and finished good in stores for 2 months.
Work in process for 1.5 months.
Lag in payment of wages is ½ month.
Lag in payment of overhead is 1 month. Cash balance is expected to be Rs.1,50,000.
40% of the sales are on credit.
Credit allowed to debtors and received from suppliers is 1 month.
Raw material is introduced full at the beginning of the process.
Wages and overheads in WIP may be assumed to be 50%.

21. The existing capital structure of Birla Ltd is as follows:

Equity shares of Rs.100 each	Rs.10,00,000
Retained earnings	Rs. 5,00,000
12% preference shares	Rs. 3,00,000
11% debentures	Rs. 2,00,000

The existing rate of return on the company's capital employed is 13% and the tax rate is 30%. The company expects to increase its rate of return by 2% as a result of expansion. The company requires a sum of Rs.10,00,000 to finance its expansion program, for which it is considering the following three options:

a) Issue 10,000 equity shares of Rs.100 each
b) Issue 5,000 13% preference shares of Rs.100 each and 12% debentures for the balance
c) Issue 7,000 equity shares of Rs.100 each and 13% loan for Rs.3,00,000.

It is estimated that the price earnings ratio in the above three financing options would be 16, 17 and 19 respectively. Advice the company.

^*^*^*^*^