LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A., B.COM. DEGREE EXAMINATION – **BUSINESS ADMIN., COR. SEC.**

THIRD SEMESTER – NOVEMBER 2016

CO 3201 - FINANCIAL MANAGEMENT

Date: 10-11-2016 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION – A

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

1. What is net working capital?
2. Give meaning of the term financial leverage
3. What do you mean by the term cost of equity capital?
4. List the sources of internal financing.
5. What is operating cycle?
6. List any two merits of Pay Back Period.
7. Calculate the Raw material holding period in days from the following:

Raw material on 1.1.2012	Rs.1,200
Raw material on 31.12.2012	Rs.1,000
Raw material purchased during the year	Rs.2,000
Period covered	365 days

8. A project requires Rs.25,000 as initial investment and it will generate an annual cash inflow of Rs.5,000 for ten years. Compute the pay-back period.
9. Market value per equity share = Rs.10, dividend expected per share = Rs.5. calculate cost of equity share.
10. What is cost of retained earnings?

SECTION – B

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

11. Give the merits and demerits of pay back method.
12. Explain the advantages of issuing bonus shares.
13. What are the factors determining the dividend policy.
14. Discuss the factors affecting the capital structure of a company.
15. Calculate the Degree of operating leverage, degree of financial leverage and the degree of combined leverage from the following data:

Output (in units)	6,00,000
Fixed costs	Rs.7,00,000
Variable cost per unit	Re.2.00
Interest expenses	Rs.1,00,000
Selling price per unit	Rs.5

16. A project needs an investment of Rs.2,00,000. The cost of capital is 10%. The scrap value is Rs.20,000 and Working capital is Rs.10,000. The Earnings after tax are as under:

Year	Earnings After Tax Rs.
1	40,000
2	50,000
3	60,000
4	30,000
5	20,000

Calculate the Average rate of return

17. Following are the details regarding the capital structure of a company:

Type of capital	*Book value Rs.*	*Market value Rs.*	*After tax cost*
Debentures	60,000	57,000	8%
Preference capital	20,000	29,000	12%
Equity capital	90,000	1,50,000	15%
Retained earnings	60,000	-------	10%

You are required to determine the weighted average cost of capital using: (i) book value as weights and (ii) market value as weights.

SECTION – C

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

18. What are the major functions performed by a finance manager?

19. Moon Limited Company is considering a capital investment proposal to install a new machine. The project will cost Rs.2,50,000 and will have a life span of 5 years and no scrap value. The cost of capital is 10%. The firm uses straight line method of depreciation. The company's tax rate is 30%. The estimated Cash flow after tax from the proposed investment proposal is as follows:

Year	**CFAT Rs.**
1	98,000
2	89,000
3	90,000
4	96,000
5	70,000

Compute:

a) Payback period b) Net present value c) Profitability index

20. Determine the Working Capital required to finance the production of 60000 units from the following details:

Selling price per unit Rs.80

Raw material per unit Rs.50

Direct labour per unit Rs.10

Overheads per unit Rs.10

Raw material is in stock for 1 month and finished good in stores for 2 months.

Material in process for 2 months.

Lag in payment of wages is ½ month. Cash balance is expected to be Rs.2,00,000.

Credit allowed to debtors and received from suppliers is 3 months. Work in progress is 30% completed.

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