LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A. & B.COM. DEGREE EXAMINATION – **BUSINESS ADMIN. & CORPO. SEC.**

THIRD SEMESTER – **NOVEMBER 2017**

CO 3201 – FINANCIAL MANAGEMENT

Date: 15-11-2017 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

PART -A

ANSWER **ALL** THE QUESTIONS: **(10 X 2 = 20)**

1. What is meant by financial management?
2. State the two objectives of financial management.
3. What is time value of money?
4. What is meant by rule of 72?
5. What is leverage?
6. What is meant by optimum capital structure?
7. What is cost of capital?
8. A project costs Rs.2,50,000 and yields an annual cash inflows of Rs.50,000 for 7 years. Calculate its pay-back period?
9. What is capital budgeting?
10. What is IRR?

PART-B

ANSWER ANY **FOUR** QUESTIONS:

(4 X 10 = 40)

11.The expected cash inflows are as follows:

Year	1	2	3	4	5
Cash inflows (Rs.)	3,000	4,500	6,000	8,000	10,000
PVF @ 16%	0.862	0.743	0.641	0.552	0.476

Discount rate is 16%. Find out the present value of cash inflows.

12. X Ltd has sales of Rs.12 lakhs. The variable cost is 50% of sales, while the fixed cost amounts to Rs.3,60,000. The amount of interest on long term debt is Rs.1,20,000.

You are required to calculate the combined leverage and illustrate its impact if sales increases by10%

13) Following information is available with regards to the capital structure of Y Ltd:

Particulars	Amount in Rupees	Cost of Capital (After tax) %
Debentures	12,00,000	5%
Preference share capital	4,00,000	10%
Equity share capital	8,00,000	15%
Retained earnings	16,00,000	12%

You are required to calculate weighted average cost of capital (WACC).

14) Briefly explain the factors affecting capital structure.

15) Explain the various methods used for risk factor in capital budgeting decisions.

16) Explain the types of leverages.

17) Mrs X has entered into an agreement that will fetch her Rs.60,000 p.a for the next 4 years. She wants to know the present value of the future cash inflows at 20% discount rate.

PART-C

ANSWER ANY **TWO** QUESTIONS (2 X 20 = 40)

18) What are the various functions of a finance manager?

19) Y Ltd needs Rs.7,00,000 for construction of a new plant. The following three financial plans are feasible:

i) The company may issue 70,000 equity shares at Rs.10 per share.

ii) The company may issue 35,000 equity shares at Rs.10 per share and 9% 3,500 debentures of Rs.100 each.

iii) The Company may issue 35,000 equity shares at Rs.10 per share and 9% 3,500 preference shares of Rs.100 each.

If the company's earnings before interest and taxes are Rs.15,000, Rs.25,000, Rs.50,000 and Rs.75,000, what are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax is 50%.

20) Explain the factors determining cost of capital.

21) X Ltd is considering investing in a project requiring a capital outlay of Rs.8,00,000. Forecast for annual net incomes after depreciation but before tax are as follows:

Year	1	2	3	4	5
Profits (Rs.)	4,00,000	4,00,000	3,20,000	3,20,000	1,60,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

You are required to evaluate the project according to each of the following methods:

a) Payback method

b) Rate of return on average investment method

c) NPV method taking cost of capital as 10%

d) P.I method

e) Internal rate of return method.

****