LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – NOVEMBER 2015

BU 5509 - FINANCIAL MANAGEMENT

Date : 11/11/2015 Dept. No. Max. : 100 Marks

Time : 09:00-12:00

PART – A

Answer ALL the questions: **(10x2=20 marks)**

1. List the Basic Objectives of financial management.
2. What are the functions of a finance manager?
3. What do you mean by Optimal Capital Structure?
4. What is the significance of leverage analysis?
5. How the cost of retained earnings is computed?
6. Mention the process of operation cycle.
7. What is Float?
8. List the features of Convertible debentures.
9. What is Internal Rate of Return?
10. Give any two limitations of Payback period.

PART – B

Answer any FOUR questions: **(4 x 10 = 40 marks)**

11. Explain the scope of financial management:
12. Discuss the merits and demerits of debt financing.
13. Explain the Factors to be considered in planning Capital Structure.
14. Explain the importance and classification of Cost of Capital.
15. Explain the importance of Capital budgeting.
16. A firm has sales of Rs.40,00,000, variable cost Rs.25,00,000, Fixed Cost – Rs.6,00,000, 10% debt of Rs.30,00,000 and equity capital of RS. 45,00,000.

    Calculate the financial and operating leverage of the firm.
17. Calculate the amount of Debtors from the following information:

Cost price structure of a product at an activity level of 60,000 units	
Raw materials	Rs.5
Wages	Rs.4
Manufacturing exp	Rs.3
Administrative exp	Rs.1

Selling and distribution exp	Rs.2
Profit	Rs.5
Selling price	Rs.20
Credit period allowed to customers	2 months
Cash sales	20%

PART – C

Answer any **TWO** questions: (2x20=40 marks)

18. Discuss the relationship between financial management and other areas of management with suitable example.

19. A company is considering the replacement of its existing machine. It has two alternatives, Machine- A, which is similar to existing machine or to go for Machine – B, which is more expensive and has much more greater capacity. The cash flows at the present level of operation of the two alternatives are as follows:

Machine	Immediate cash out flow (in lakhs of Rs.)	Cash Inflows(in Lakhs of Rs.) at the end of				
		1st year	2nd year	3rd Year	4th Year	5th Year
A	25	-	5	20	14	14
B	40	10	14	16	17	15
PV of Re.1@10%	1.00	0.91	0.83	0.75	0.68	0.62

The company's cost of capital is 10%

Evaluate the proposals by using the following techniques and suggest the best Machine to be acquired by:

1. NPV
2. Profitability Index
3. Payback period
4. Discounted Payback period.

20. From the following information calculate WACC based on Market Value and Book Value.

Source of capital	Book Value	Market Value
Equity Shares @ Rs.100 each	80,00,000	1,60,00,000
9% Cumulative Pref Shares @ Rs.100	20,00,000	24,00,000
11% Debentures	60,00,000	66,00,000
Retained Earnings	40,00,000	-
	2,00,00,000	2,50,00,000

The current market price of the company's equity share is Rs.200. For the last year the company had paid equity dividend at 25% and it is expected to grow 5% every year. The corporate tax rate 30% and the shareholders personal income tax rate is 20%

21. Determine the Working Capital Requirement from the following information.

Annual Budget for	**Amount (Rs. In Lakh)**
Raw Materials	720
Supplies and Components	240
Manpower Expenses	480
Factory Expenses (including Rs.10,00,000 Depreciation)	130
Administration exp	180
Sales	2380

Additional Information:

- Stock levels planned: Raw materials- 30 days , supplies and components-90 days
- 50% of the sales is for cash and the remaining on 20 days credit
- Finished goods are held as stock for a period of 7 days before they are released for sale and are valued at factory cost
- Goods remain in process for 5 days. Materials & Components are supplied in the beginning and expenses are incurred evenly.
- The company enjoys 30 days credit facilities on 20% of the purchases.
- Cash and bank balances had been planned to be kept at the rate of half-month budgeted expenses, assume 360 days in a year.

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