LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **APRIL 2018**

BU 5509– FINANCIAL MANAGEMENT

Date: 04-05-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART A (10 X 2= 20)

ANSWER ALL THE QUESTIONS:

1. Name any two objectives of Financial Management.
2. What do you understand by Time Value of Money?
3. What is trade credit?
4. State any two features of Fixed capital.
5. The installed capacity of a factory is 600 units. Actual capacity used is 400 units. Selling price per unit is Rs.10; variable cost is Rs.6 per unit. Calculate the operating leverage in each of the following two situations: a) when fixed cost is Rs.400 b) when fixed cost is Rs.1000
6. K Ltd issued 50000 12% Debentures of Rs.100 each at par. The tax rate is 40%. Calculate cost of debt before tax and after tax.
7. Define the term working capital.
8. Calculate the pay-back period for a project which requires a cash outlay of Rs.1,00,000 and generates cash inflows of Rs.25000, Rs.35000, Rs.30000 and Rs.25000 in the first , second, third and fourth years respectively.
9. What is meant by leverage?
10. What is operating cycle?

PART B (4 x 10 = 40)

ANSWER ANY FOUR QUESTIONS:

11. How is the goal of wealth maximisation a better operative criterion than profit maximisation?
12. Explain the role of a finance manager.
13. What do you understand by financial leverage? Discuss its significance
14. Explain the net income approach to capital structure.

15. K Ltd issued 50000 10% debentures of Rs.100 each, redeemable in 10 years time at 10% premium. The cost of issue was 2.5%. the company's income tax rate is 35%. Determine the cost of debt (before as well as after tax) if they were issued a) at par b) at a premium of 5% and c) at a discount of 10%.

16. An investment of Rs.10000 (having scrap value of Rs.500) yields the following returns:

Year	1	2	3	4	5
CFAT	4000	4000	3000	3000	2500

The cost of capital is 10%. Is the investment desirable? Discuss it according to NPV method assuming the P.V. factors for 1^{st}, 2^{nd}, 3^{rd}, 4^{th} and 5^{th} year.- 0.909,.0826,0.751,0.683, an 0.620 respectively.

17. Using the information given below, prepare a cash budget showing expected cash receipts and disbursements for the month of May and balance expected at May, 31 1.2015 Rs.60000.

Sales:	Rs.
March	500000
April	300000
May	800000

Half collected in the month of sale, 40% in the next month, 10% in the third month

Purchases:	Rs.
April	250000
May	400000

- 40% paid in the month of purchase, 60% in the next month.
- Wages due in May for Rs.88000. three years insurance policy due in May for renewal Rs.2000 to be paid in cash.
- Other expenses for May payable in May Rs.44000.
- Depreciation for the month of May Rs.2000. Accrued taxes for May, payable in December Rs.6000.
- Fixed deposit receipts due May 15, Rs.175000 plus Rs.10000 interest.

PART C (2 x 20 = 40)

ANSWER ANY TWO QUESTIONS:

18. Explain the different sources of short term and long term finance.

19. A company is considering a proposal of installing drying equipment. The equipment would involve a cash outlay of Rs.900000 and net working capital of Rs.120000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purposes.

    The estimated before tax inflows are given below:

Year	1	2	3	4	5
Before tax cash Inflows ('000)	360	412.5	315	270	240

    The applicable income tax rate to the company is 35%. If the company's opportunity cost of capital is 12%, calculate the equipment's a) payback period b)Discounted payback period c) IRR.

20. A firm is considering methods to finance its investment proposal. It is estimated that initially Rs.4,00,000 will be needed. Two alternative methods of raising funds are available to the firm; a) issued of 15% loan amounting to Rs.200000 and issue of 2000 equity shares of Rs.100 each and b) Issue of 4000 equity shares of Rs.100 each. The appropriate tax rate is 50%.

    i) Assuming operating profit (EBIT) of a) Rs.70000 and b) Rs.80000, which financing proposal would you recommend and why?

    ii) Compute the indifference point of the two financial plans.

21. XYZ Co.Ltd is a Pipe manufacturing company. Its production cycle indicates that materials are introduced in the beginning of the production cycle, wages and overheads accrue evenly throughout the period of the cycle. Wages are paid in the next month following the month of accrual. Work-in-progress includes full units of raw

materials used in the beginning of the production process and 50% of wages and overheads are supposed to be conversion costs. Details of production process and the components of working capital are as follows:

Production of pipes 12,00,000 units

Duration of the production cycle-one month

Raw material inventory held-one month consumption

Finished goods inventory held for—two months

Credit allowed by creditors—one month

Credit given to debtors—two months

Cost of raw materials—Rs.60 per unit

Direct wages—Rs.10 per unit

Overheads—Rs.20 per unit

Selling price of finished pipes—Rs.100 per unit

Calculate:

i) The amount of working capital required for the company

ii) The maximum permissible bank finance under all the three methods of lending norms as suggested by the Tandon Committee, assuming the value of core current assets is Rs.1,00,00,000

****