LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **APRIL 2022**

UBU 5501 – FINANCIAL MANAGEMENT

Date: 16-06-2022 Dept. No. Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

PART – A

Q. No **Answer ALL questions** **(10 x 2 = 20 Marks)**

1. What do you understand by time value of money?
2. Give the meaning of doubling period.
3. What is cost of capital?
4. How will you compute the cost of debt capital?
5. Write a short note on indifference point.
6. What is capital budgeting?
7. Define the term working capital.
8. Ram makes an initial deposit of Rs. 2,00,000 in Laxmi Bank Ltd. Interest is compounded at 10% p.a for 6 years. Compute the amount of maturity.
9. A project has an initial investment of Rs. 2,00,000. It will produce cash flows after tax of Rs.50,000 per annum for six years. Compute the payback period for the project.
10. A firm sells its only product at Rs. 12 per unit. Its variable cost is Rs.8 per unit. Present sales are 1,000 units. Calculate the operating leverage when the fixed cost is Rs.1000.

PART – B

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

11. Explain the objectives of financial management.
12. Explain the factors determining the cost of capital.
13. Explain briefly the different sources of working capital.
14. Rane Ltd has issued debentures of Rs. 20 lakh to be repaid after 5 years. How much should the company invest in a sinking fund earning 10% in order to be able to repay debentures?
15. Project R requires an investment of Rs.20 lakh and yields profit after tax and depreciation as follows:

Year	1	2	3	4	5
Profit after Tax & Depreciation (Rs.)	1,00,000	1,50,000	2,50,000	2,60,000	1,60,000

At the end of 5^{th} year, the plant can be sold for Rs.1,60,000. You are required to calculate ARR.

16. Ajit Ltd. has a stable income and stable dividend policy. The average annual dividend payout is

Rs.25 per share (face value: Rs.100). You are required to ascertain:

a. Cost of equity capital
b. Cost of equity capital if the market price of the share is Rs.150.
c. Expected market price in year 2 if the cost of equity is expected to rise to 20%
d. Dividend pay-out in year 2 if the company were to have an expected market price of Rs.160 per share, at the existing cost of equity.

17. From the following information relating to ABC ltd. calculate

a. Operating Cycle   b. No of operating cycles in a year assuming a 360 day years

c. Average working capital required, if annual cash operating expenses are Rs.150 lakh.

Stock Holding:	Raw Materials	: 2 Months
	W.I.P	: 15 days
	Finished Goods	: 1 Month
	Average Debt Collection Period	: 2 Months
	Average Payment Period	: 45 days

PART – C

Answer any TWO questions **(2 x 20 = 40 Marks)**

18. Explain in detail the determinants of working capital requirements.

19. Raja Ltd. Issued 50,000 10% debentures of Rs.100 each, redeemable in 10 years' time at 10% premium. The cost of the 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%
c. At a Discount of 10%

20. A Company needs Rs.31,25,000 for the construction of a new plant. The following three plans are feasible:

Plan 1: The company may issue 3,12,500 equity shares at Rs.10 per share
Plan 2: The company may issue 1,56,250 equity shares at Rs.10 per share and 15,625 8%Debentures of Rs.100 denomination.
Plan 3: The company may issue 1,56,250 equity shares at Rs.10 per share and 15,625 8%Preference shares at Rs.100 per share
Assuming corporate income tax of 40%, Determine the EBIT-EPS indifference points between financing Plan1 & Plan2 and Plan1 and Plan3.

21. ABC 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:

Years	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 original investment method
c. Rate of return on average investment method
d. NPV method taking cost of capital as 10%
e. P.I Method.