LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIFTH SEMESTER – **NOVEMBER 2017**

BU 5509 – FINANCIAL MANAGEMENT

Date: 08-11-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

Section A (10 X 2 =20 marks)
Answer the following questions.

1) Define financial management.
2) What do you understand by time value of money?
3) Give the formula for determining the degree of operating leverage.
4) Write a short on indifference point.
5) What are the components of cost of capital?
6) A company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Re. 1 per share and the investors expect a growth rate of 5% per year. Compute the company's Cost of equity capital.
7) What is Internal Rate of Return?
8) A project has an initial investment of Rs.2,00,000. It will produce cash inflows after tax of Rs.50, 000 per annum for six years. Compute the payback period for the project.
9) Define working capital.
10) Abishek Ltd. expects its cost of goods for the next year to be Rs.600000. The expected operating cycle is 60 days. The company's policy is to carry a minimum cash balance of Rs.200000. Estimate the working capital requirement.

Section B (4 X10 = 40 marks)
Answer any FOUR Questions.

11) Explain the objectives of financial management.

12) Explain the need for capital budgeting.

13) Calculate the operating leverage, financial leverage and the combined leverage for the following firms and interpret the results:

	P	Q	R
Outputs (units)	3,00,000	75,000	5,00,000
Fixed cost (Rs)	3,50,000	7,00,000	75,000
Variable cost per unit(Rs)	1	7.50	0.10
Interest expenses (Rs.)	25,000	40,000	-
Unit selling price (Rs.)	3	25	0.50

14) Excel Industrial Ltd. has assets of Rs.1,60,000 which has been financed with Rs.52,000 of debt and Rs.90,000 of equity and a general reserve of Rs.18,000. The firm's total profits after interest and taxes for the year ended 31st March 2007 were Rs.13,500. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs.100 each selling at a market price of Rs.120 per share. Calculate weighted average cost of capital.

15) A firm issues debentures of Rs.1,00,000 and realizes Rs.98,000 after allowing 2% commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10th year at par. Calculate cost of debt.

16) From the following information relating to Perara Ltd., calculate a) Operating cycle b) Number of operating cycles in a year assuming a 360 day year, and c) average working capital required, if annual cash operating expenses are Rs.150 lakh.

Stock holding:	Raw materials	: 2 months
	WIP	: 15 days
	Finished goods	: 1 month
Average debt collection period		: 2 months
Average payment period		: 45 days

17) Discuss the objectives of cash management.

Section C (2 X 20 = 40 marks)
Answer any TWO questions

18) From the following capital structure of a company, compute the overall cost of capital using

i) Book value weights and ii) Market value weights

	Book value Rs.	Market value Rs.
Equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:

Equity share capital	: 14%
Retained earnings	: 13%
Preference share capital	: 10%
Debentures	: 5%

19) Cost sheet of a company provides the following particulars:

Elements of cost: Raw materials : 40%, Labour : 10%

Overheads : 30%

The following particulars are also available:

i) Raw materials remain in stock for 6 weeks

ii) Processing time : 4 weeks

iii) Finished goods are in stock for 5 weeks

iv) Period of credit allowed to debtors : 10 weeks

v) Lag in payment of wages : 2 weeks

vi) Period of credit allowed by creditors : 4 weeks

vii) Selling price : Rs.50 per unit

viii) Production in units: 13,000 p.a.

Prepare an estimate of working capital requirement.

20. Anbu Co. Ltd., is considering the purchase of a new machine. Two alternative machines (X and Y) have been suggested each costing Rs.4,00,000. Earnings after taxation are expected to be as follows:

Year	Cash inflow	
	Machine X Rs.	Machine Y Rs.
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company has a target rate of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative is preferable. The present value of Re. 1 (to be received at the end of each year).

Year	1	2	3	4	5
PV	0.909	0.826	0.751	0.683	0.621

21) Explain the factors determining capital structure of a firm.

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