LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. & B.B.A. DEGREE EXAMINATION –**CORPORATE SECRE. & BUSI. ADMIN.**

THIRD SEMESTER – **APRIL 2018**

CO 3201– FINANCIAL MANAGEMENT

Date: 04-05-2018 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

SECTION – A

Answer all the questions **(10x2=20)**

1. What is working capital?
2. Explain the term leverage
3. What do you mean by the term cost of equity?
4. List the sources of internal financing.
5. What is operating cycle?
6. List any two merits of Net present value.
7. What is equity share?
8. What is indifference point EBIT?
9. List any two advantages of bonus share.
10. What is optimum capital structure

SECTION – B

Answer any five questions **(5x8=40)**

11. Give the merits and demerits of Net present value.
12. Explain the advantages of issuing equity shares.
13. What are the factors determining the dividend policy.
14. Discuss the factors affecting the capital structure of a company.
15. Calculate the Degree of operating leverage, degree of financial leverage and the degree of combined leverage from the following data:

Output (in units)	6,00,000
Fixed costs	Rs.7,00,000
Variable cost per unit	Re.1.00
Interest expenses	Rs.60,000
Selling price per unit	Rs.5

16. A project needs an investment of Rs.2,00,000. The cost of capital is 10%. The scrap value is Rs.20,000 and Working capital is Rs.10,000. The Earnings after tax are as under:

Year	**Earnings After Tax Rs.**
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Calculate the Average rate of return

17. The existing capital structure of Reliance Ltd is as follows:

Equity shares of Rs.100 each Rs.3,00,000

The company requires a sum of Rs.2,00,000 to finance its expansion program, for which it is considering the following options:

a) Issue 2,000 equity shares of Rs.100 each

b) Issue 10% preference shares

The EBIT after expansion is Rs.1,00,000 and tax rate is 40%. If the estimated Price Earnings Ratio in the above two financing options would be 16 and 14 respectively, which option would you recommend?

18. Determine the Working Capital required to finance the production of 60000 units from the following details:

Selling price per unit Rs.100

Raw material per unit Rs.30

Direct labour per unit Rs.10

Overheads per unit Rs.10

Raw material is in stock for 1 month and finished good in stores for 2 months.

Material in process for 1.5 months.

Lag in payment of wages is ½ month. Cash balance is expected to be Rs.3,00,000.

Credit allowed to debtors and received from suppliers is 3 months. Work in progress is 40% completed.

SECTION – C

Answer any two questions **(2x20=40)**

19. Explain financial management and its objectives. What are the major functions performed by a finance manager?

20. Sun limited company is considering a capital investment proposal to install a new machine. The project will cost Rs.2,30,000 and will have a life span of 5 years and no scrap value. The cost of capital is 10%. The company's tax rate is 50%. The estimated Cash flow after tax from the proposed investment proposal is as follows:

Year	**CFAT**
Rs.	
1	65,000
2	79,000
3	80,000
4	95,000
5	75,000

Compute:

a) Payback period b) Net present value c) Profitability index

21. Ganesh Ltd has the following capital structures:

Equity capital Rs.10 each	Rs.20,00,000
10% Preference capital Rs.100 each	Rs.12,00,000
Retained earnings	Rs.24,00,000
11% Debentures (Rs.10 each)	Rs.10,00,000
12% Loan	Rs. 9,00,000

The next expected equity dividend is Rs. 3 per share. The dividend is expected to grow at 7% per annum. Market price of the equity share is Rs.12 per share. Preference share redeemable after 10 years is currently selling at Rs.95. Debentures redeemable after 5 years are selling at Rs.12. Assume tax rate is 40%. Calculate weighted average cost of capital using Market value as weights.

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