LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com., B.B.A. DEGREE EXAMINATION – **CORP. SECR. & BUSI. ADMIN.**

THIRD SEMESTER – **NOVEMBER 2013**

CO 3201 - FINANCIAL MANAGEMENT

Date : 13/11/2013 Dept. No. Max. : 100 Marks
Time : 9:00 - 12:00

SECTION – A

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

1. What do you mean by cost of retained earnings?
2. State the different sources of security financing.
3. Write any two merits of debenture issue.
4. Explain the term “ operating cycle”
5. **a)** ______ refers to that part of the profits of a company which is distributed amongst its shareholders.
   b) ______ refers to long-term planning for proposed capital investment.
6. **Say true or false:**
   a) Financial leverage indicates the change in taxable income as a result of change in the operating income.
   b) Financing through preference shares is costlier as compared to financing through equity shares.
7. A project requires an investment of Rs.5,00,000. The plant required under the project will have a scrap value of Rs.20,000 at the end of its useful life of 5 years. The profits after tax are as follows:

Year	1	2	3	4	5
Rs.	50,000	75,000	1,50,000	1,25,000	90,000

   Calculate Accounting rate of return.

8. The degree of operating leverage is 2 and degree of financial leverage is 4. By what percentage will EPS increase if sales increase by 6 per cent?
9. Calculate the Raw material holding period in days from the following:

Raw material on 1.1.2009	`400
Raw material on 31.12.2009	`250
Raw material consumed during the year	`700
Period covered	365 days

10. C ltd has issued 10,000 debentures of `120 each at a discount of `5 per debenture with 12 year maturity. The coupon rate is 15%. Floatation cost is `2 per debenture. The debentures are redeemable at a premium of 10%. Tax rate is 50%. Calculate the cost of debentures.

SECTION – B

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

11. Explain the different factors affecting the capital structure of a company.
12. What are ‘Bonus shares’? Do they differ from ‘stock dividend’? State the advantages of issuing bonus shares.
13. State the pros and cons of Net present value method.
14. What is internal financing? Explain the different sources of internal financing.

15. The following is the balance sheet of zebra co.,

Liabilities	`	***Assets***	`
Equity capital(Rs.10 per share)	1,00,000	Net fixed assets	2,50,000
10% Long-term debt	80,000	Current assets	1,00,000
Retained earnings	1,20,000		
Current liabilities	50,000		
	3,50,000		3,50,000

The company's total assets turnover ratio is 2. Its fixed operating cost are `50,000 and its variable operating costs ratio to sales is 30%. The income tax rate is 30%. Calculate operating, financial and combined leverages.

16. The directors of Company wishes to ascertain the working capital required to meet the planned production of 2,08,000 units during the year. The cost of production is `180 per unit, comprising of raw material – `90 per unit, direct labour – `40 per unit and overheads `50 per unit. Selling price is `200 per unit. Raw material is in stock for 4 weeks.
Work in progress (assume 50% completion) is in stock for 2 weeks.
Finished goods are in stock for 2 weeks. Credit allowed by suppliers is 3 weeks
Credit allowed to debtors is 5 weeks
Lag in payment of wages is 1.5 weeks
Cash at bank is expected to be ` 1,00,000. 50% of the company's sales are for credit.

17. Action Ltd requires `3,00,000 for diversification. It has identified the following three financing options:
a) Issue 30,000 equity shares at `10 each
b) Issue 20,000 equity shares at `10 each and 1,000 10% debentures of `100 each
c) Issue 15,000 equity shares at `10 each and 1,500 13% preference shares of `100 each.
Assuming EBIT after construction is `80,000 which alternative would you recommend? The tax rate is 40%.

18. X Ltd is contemplating investment in a project which requires an initial investment of `5,00,000. The cost of capital is 8%. The Cash flow after tax are as under:

year	**CFAT** `
1	**1,50,000**
2	**2,00,000**
3	**2,55,000**
4	**1,60,000**
5	**1,00,000**

You are required to find whether the investment would be profitable using the following:
a) Pay-back period

b) Net present value
c) Profitability index

SECTION – C

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

19. What is financial management? Discuss the different functions performed by a finance manager.

20. Kevin Ltd is proposing to take up a project which will need an investment of `1,50,000. The useful life of asset is 5 years. Depreciation is to be charged according to the straight line method. The earnings after tax are estimated to be as follows:

Year	**EAT**
1	6,000
2	15,000
3	18,000
4	22,000
5	15,000

Calculate: **a)** Discounted Payback period @ 12% PV factor **b)** Internal rate of return.

21. The following is the capital structure of Sony Ltd

Equity shares of `100 each	`10,00,000
11% preference shares of `10 each	` 6,00,000
13%debentures	` 8,00,000
Retained earnings	`12,00,000

The expected dividend for equity share is `2 per share. The dividend is expected to grow at 8% per annum. The market price of equity share is `25. Preference share redeemable after 12 years is currently selling at `90. Debentures redeemable after 8 years are selling at `95. Tax rate is 35%. Calculate weighted average cost of capital using **a)** book value **b)** market value as weights.

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