LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.A. DEGREE EXAMINATION – **ECONOMICS**

THIRD SEMESTER – **NOVEMBER 2018**

BC 3201 – CORPORATE GOVERNANCE

Date: 30-10-2018 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

SECTION – A

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

1. What is dividend?
2. What is Indifference point EBIT?
3. What is gross working capital?
4. Explain the term Operating Leverage.
5. State any two merits of Net Present Value.
6. What is Capital Structure?
7. Interest = Rs.12,000 Tax rate = 50% No. of equity share = 40,000 shares. Calculate the likely level of EBIT if EPS is Rs. 4
8. Market value per equity share = Rs.15, Dividend expected per share = Rs.1.5. Calculate the cost of equity share
9. A project requires Rs.1,00,000 as initial investment and it will generate an annual cash inflow of Rs.10,000 for ten years. Compute the pay-back period.
10. Explain the term Capital Budgeting.

SECTION – B

Answer any four questions **(4x10=40)**

11. What are the factors determining the dividend policy of a company?

12. Describe the significance of Capital Budgeting Decisions in a Company.

13. Explain the terms: a) Cost of Retained Earnings b) Leverage c) Operating Cycle d) Cost of Equity.

14. Explain the various factors affecting the working capital requirement of a company.

15. Jay Ltd has the following capital structures:

Equity capital Rs.10 each	Rs.20,00,000
Retained earnings	Rs.24,00,000
11% Debentures (Rs.10 each)	Rs.10,00,000

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. Debentures redeemable after 5 years are selling at Rs.12. Assume tax rate is 40%. Calculate weighted average cost of capital using Book value as weights.

16. A project needs an investment of Rs.56,125. The cost of capital is 12%. The cash inflows after tax from the project are as under:

Year	**CFAT**
1	14,000
2	16,000
3	18,000
4	20,000
5	25,000

Calculate the Internal Rate of Return and Suggest whether the project should be accepted or not.

17. Calculate the Degree of operating leverage, degree of financial leverage and the degree of combined leverage from the following data:

Output (in units)	3,00,000
Fixed costs	Rs.2,00,000
Variable cost per unit	Rs.3
Interest expenses	Rs.60,000
Selling price per unit	Rs.6

SECTION – C

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

18. What is Financial Management ? Explain the functions of financial management in detail.

19. Reyan limited company is considering a capital investment proposal to install a new machine. The project will cost Rs.2,00,000 and will have a life span of 5 years and no scrap value. The cost of capital is 10%. The estimated Cash flow after tax from the proposed investment proposal is as follows:

Year	**CFAT Rs.**
1	67,000
2	75,000
3	80,000
4	97,000
5	70,000

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

20. The existing capital structure of Reliance Ltd is as follows:
Equity shares of Rs.100 each Rs.2,00,000
6% debentures Rs.1,00,000
The existing rate of return on the company's capital employed is 10% and tax rate 50%. 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 12% preference shares
If the estimated Price Earnings Ratio in the above two financing options would be 17 and 15 respectively, which option would you recommend.

21. Determine the Working Capital required to finance the production of 1,08,000 units per annum from the following details:

Selling price per unit	Rs.80
Raw material per unit	Rs.30
Direct labour per unit	Rs.10
Overheads per unit	Rs.20

Raw material is in stock for 1.5 month and finished goods in stores for 1 months.
Material in process for 1 month. 60% of the sales are for cash.
Cash balance is expected to be Rs.4,00,000.
Credit allowed to debtors and received from suppliers is 0.5 month. Work in progress is 60% completed.

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