LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com.Corp. & BBA DEGREE EXAMINATION

THIRD SEMESTER – NOVEMBER 2007

AV13

CO 3201/BU 3201 - FINANCIAL MANAGEMENT

Date : 05/11/2007 Dept. No. Max. : 100 Marks
Time : 9:00 - 12:00

SECTION – A

Answer ALL questions: (10 x2 = 20)

Explain the following:

01. Cost of equity
02. Risk and Return
03. Internal Rate of Return
04. combined Leverage
05. Sources of long term funds
06. Operating Leverage
07. Trading on Equity
08. Bridge Finance
09. Time Value of Money
10. Pay back period

SECTION –B

Answer any FIVE questions: (8 x 5 = 40)

11. Explain the Merits and Demerits of Equity Shares?
12. Define Capital Budgeting?explain its importance's?
13. Critically evaluate pay back period?
14. A company is considering an investment proposal to install a new machine. The project will cost Rs 50000 and will have a life of 5 yrs and no salvage value. The company tax rate 50% and no investment allowance is allowed. The firm uses straight line method of depreciation.

Yrs	Net Income before Depreciation and Tax(Rs)
1	10000
2	11000
3	14000
4	15000
5	25000

Compute the following 1) Pay back period 2) Average Rate of Return

15. Following are the details of Roy & co

Particulars	Rs
Share capital	100000
10% preference Share	50000
10% Debentures	100000
Tax	40%
EBIT	18333

Compute EPS under each of the options, given below

1) At the present level of EBIT
2) If the EBIT increases to Rs 25000
3) If the EBIT increases to Rs 35000

[p.t.o]

16. The following information is available in respect of Alpha ltd

Sales (Rs)	**800 lacs**	
Cost of goods sold	**90%**	
Other balances	**1-1- 2000(Rs in lacs)**	**31-12-2000(Rs lacs)**
Inventory	**96**	**102**
Debtors	**86**	**90**
Creditors	**56**	**60**

Calculate the net operating cycle of the firm

17. Vasanth and company Shares are quoted in the market at Rs 20 the expected dividend is Re 1 per share and the investor expects a growth rate of 5% per year. You are requested to compute:

1) The company cost of equity capital

2) If the company cost of capital is 8% and the anticipated growth rate 5% per annum, the market price of the equity shares dividend of Re 1

18. Calculate Operating, Financial and Combined Leverages and interpret the results.
Out put60000 units, fixed cost Rs 7000, Variable cost per unit Rs0.20, Interest Rs 4000, Selling price per unit Rs 0.60.

SECTION – C

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

19. BPL has the following Capital structure

Particulars	**Rs**
Equity Shares Capital	**4000000**
6% Preference Shares	**1000000**
8% Debentures	**3000000**

The market price of the company equity shares is Rs 20. it is expected that company will pay dividend of Rs 2 per share at the end of current year , which will growth at 7% for ever. The tax rate may be presumed at 50% you are required to compute:

1) Weighted average cost of capital (WACC)
2) The new WACC if the company raises an additional Rs 2000000 Debt @ 10%. This would results in increasing the expected dividend at Rs 3 and leave the growth rate unchanged but the price will fall to Rs 15 per share

20. From the following information, prepare an estimation of working capital requirements:

Projected Annual Sales 52000 units
Selling Price Rs.60 per unit
Raw Material 40% of Selling Price
Direct Labour 30 % of Selling Price
Overheads 20 % of Selling Price

Raw materials remain in stock on an average for 3 weeks. Goods remain in production process for 4 weeks on an average. 5 weeks are allowed to debtors to pay while 3 weeks credit from suppliers. Finished goods remain in stock for one month. Lag in the payment of wages and overheads expenses is two weeks. 50% of the sales are on cash basis. Assume that goods in process are 100 % complete with respect to material but only 50 % in conversion cost.

21. Nokia company has currently an Equity Capital of Rs 25 lakhs, consisting of 25000 equity shares of 100 each. The management is planning to raise another Rs 20 lakhs to finance a major programme of expansion through one of four possible financing options:

1) **Entirely through ordinary shares**
2) **Rs 10 lakhs through ordinary shares and Rs 10 lakhs through long term borrowings @ 8%**
3) **Rs 5 lakhs ordinary shares and Rs 15 lakhs through long term borrowing @ 9%**
4) **Rs 10 lakhs through ordinary shares and Rs 10 lakhs through preference shares with 5%**

The company expects EBIT will be Rs 8 lakhs. Assuming corporate tax @ 50% which financing option would you recommend?

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