LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**B.Com., BBA.,** DEGREE EXAMINATION – **CORPORATE SEC. & BUSI. ADMIN.**

THIRD SEMESTER – **NOVEMBER 2012**

# CO 3201 - FINANCIAL MANAGEMENT

Date : 09/11/2012 Dept. No. Max. : 100 Marks

Time : 9:00 - 12:00

**SECTION – A**

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

1. What is financial management?
2. Give the meaning of the term “operating cycle”.
3. If DOL = 1.56, DCL = 1.23, by what percentage will EBIT increase if sales increase by 10 per cent?
4. Frost Ltd. has issued Rs.1,000 debentures redeemable at a premium of 10% with 10 years maturity. Coupon rate is 12%. Tax rate is 50%. Calculate the cost of debentures.
5. Calculate the debtors collection period in days from the following:

Debtors on 1.1.2011 Rs.500

Debtors on 31.12.2011 Rs.380

Credit sales during the year Rs.3,700

Period covered 365 days

1. Interest = Rs.5,000 Tax rate = 40% No of equity share = 12,000. Determine the likely level of EBIT if EPS is Re.1
2. State any two merits of Net Present Value.
3. What do you mean by the term “cost of equity”.
4. What is optimum capital structure?
5. List the different forms of dividend.

**SECTION – B**

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

1. Explain the factors considered in determining working capital requirement of a firm.
2. Describe the factors affecting dividend policy.
3. Explain the sources of internal financing.
4. The project X initially costs Rs.25,000. The cost of capital is10%. It generates the following cash flow after tax:

|  |  |
| --- | --- |
| **year** | **Cash inflows**  **Rs.** |
| **1** | **9,000** |
| **2** | **8,000** |
| **3** | **7,000** |
| **4** | **6,000** |
| **5** | **5,000** |

Calculate **a)** Payback period **b)** Discounted payback period

1. Sales = Rs.70 lakhs, Fixed cost = Rs.5 lakhs, Variable cost = Rs.45 lakhs, 9% debentures =Rs.40 lakhs and Equity = Rs.60lakhs.

Calculate Operating leverage, Financial leverage and Combined leverage.

1. A company has the following capital structures:

Equity capital Rs.10 each Rs.3,00,000

9% Preference capital Rs.100 each Rs.2,00,000

Retained earnings Rs.1,00,000

10% Debentures (Rs.10 each) Rs.1,00,000

The next expected dividend is Rs. 5 per share. The dividend is expected to grow at 8% per annum. Market price of the equity share is Rs.12 per share. Assume tax rate is 50%. Calculate weighted average cost of capital using book value as weights.

1. Ganesh Ltd plans a production of 57000 units per annum. The cost of production is Rs.100 per unit, comprising of raw material – Rs.70; direct labour – Rs.20 and overheads Rs.10.

Selling price is Rs.150 per unit. Raw material is in stock for 2 months and finished goods for 3 months. Production process takes 1 month. Credit allowed by supplier is 1.5 months and credit given to debtors is 1 month. WIP may be assumed to be 40% completed. Calculate the working capital required at cash cost.

1. The following data relates to Reliance Ltd:

**Existing capital structure:** 50,000 equity shares of Rs. 100 each

The company wants to implement a new project for which Rs.10 lakhs is needed. The following two options are identified:

1. Equity shares @ Rs.100 each Rs.10 lakhs
2. Equity shares @ Rs.100 each Rs. 5 lakhs

10% preference shares @Rs.100 each Rs. 5 lakhs

Calculate the EBIT at the indifference point. Assume 30% tax.

**SECTION – C**

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

1. Discuss the functions of financial management in detail.
2. The existing capital structure of Regal Ltd is as follows:

Equity shares of Rs.100 each Rs.5,00,000

Retained earnings Rs.2,00,000

8% preference shares Rs.2,50,000

6% debentures Rs. 50,000

The existing rate of return on the company’s capital employed is 10% and tax rate 50%. The rate of return is expected to increase by 2% after expansion. The company requires a sum of Rs.5,00,000 to finance its expansion program, for which it is considering the following options:

a) Issue 5,000 equity shares of Rs.100 each

b) Issue 10% preference shares

c) Issue 8% debentures

The estimated Price Earnings Ratio in the above three financing options would be 17, 15 and 14 respectively. Which option would you recommend?

1. Surya limited is considering a capital investment proposal which cost Rs.2,50,000. It has a life span of 5 years. The cost of capital is 12%. The firm uses straight line method of depreciation. The company’s tax rate is 30%. The estimated Earnings before tax from the proposed investment proposal is as follows:

**Year Earnings before tax**

**Rs.**

1 45,000

2 60,000

3 95,000

4 63,000

5 50,000

**Compute:** a) Average rate of return b) Net present value c) Profitability index

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