LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A.DEGREE EXAMINATION – **BUSINESS ADMINISTRATION**

FIFTH SEMESTER – **NOVEMBER 2018**

16UBU5MC02– FINANCIAL MANAGEMENT

Date: 25-10-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

Section – A (10 x 2 = 20 Marks)
Answer ALL questions

1. Give the meaning of Financial Management.
2. What do you mean by profit maximization?
3. What do you mean by optimum capital structure?
4. Write a short note on indifference point.
5. What is financial leverage?
6. Define cost of capital.
7. Give the meaning of profitability index.
8. Write a short note on IRR method.
9. What is venture capital financing?
10. Write short note global depository receipt.

Section – B (4 x 10 = 40 Marks)
Answer any FOUR questions

11. Explain the objectives of financial management.
12. State the purposes of long term finance.
13. Explain the various stages involved in capital budgeting process.
14. The shares of a textile company are quoted in the market at Rs. 20 currently. The company pays a dividend of Re.1 per share and the investor expects a growth rate of 5% per year. Compute:
    (a) The company's cost of equity capital;
    (b) If the anticipated growth is 6% p.a., calculate the indicated market price per share.
    (c) If the company's cost of capital is 8% and the anticipated growth is 5% p.a., calculate the indicated market price if the dividend of Re.1 per share is to be maintained.
15. Taylor Limited has an average selling price of Rs.10 per unit. Its variable unit cost is Rs.7 , and fixed cost amounts to Rs.3,40,000. It finances all its assets by equity funds. It pays 50% tax on its income. Bhatia Limited is identical to Taylor Limited except in respect of pattern of financing. The latter finances its assets by 50% by

equity and 50% by debt, the interest on which amounts to Rs.40, 000. Determine the operating, financial and combined leverage at 1,40,000Units of sales for both the firms.

16. Two firms M and N are identical in all respects except the degree of leverage. Firm M does not use any debt in its financing (unlevered). Firm N has 8% debentures of Rs.6,00,000(levered). The firms have earnings before interest and taxes (EBIT) Rs.2,00,000 and the equity capitalization rate is 12.5%. Assuming the corporate tax @50%, calculate the value of firms using MM approach.

17. A company has to choose one of the two alternative machines. Calculate the pay back period and suggest the most profitable machine.

	Modi Rs.	Natraj Rs.
Cost of Machine	2,00,000	2,00,000
Working life (Years)	5 years	5 Years
Profit before depreciation & tax:		
I Year	60,000	80,000
II Year	70,000	1,00,000
III Year	80,000	80,000
IV Year	60,000	70,000
V year	40,000	60,000
Rate of Income Tax	50%	50%

Section – C (2 x 20 = 40 Marks)
Answer any TWO questions

18. Explain the role of finance manager in financial management.

19. One-up Limited has equity share capital of Rs.5,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.3,00,000 for expansion cum modernization scheme. The company plans the following financing alternatives:
    (i) By issuing equity shares only
    (ii) Rs.1,00,000 by issuing equity shares and Rs.2,00,000 through debentures or term loan @10% per annum.
    (iii) By raising term loan only at 10% per annum.
    (iv) Rs. 1,00,000 by issuing equity shares and Rs.2,00,000 by issuing 8% preference shares.

    You are required to suggest the best alternative giving your comment assuming that the estimated earnings before interest and taxes (EBIT) after expansion is Rs.1,50,000 and corporate rate of tax is 35%.

20. From the following capital structure of a company, compute the overall cost of capital using

(i) Book value weights, and

(ii) Market value weights.

	Book Value Rs.	**Market Value Rs.**
Equity Share Capital (Rs.10 per share)	45,000	90,000
Retained earnings	15,000	-----
Preference share capital	10,000	30,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows:

Equity share capital	: 14%
Retained earnings	: 13%
Preference share capital	: 10%
Debentures	: 5%

21. Anbu Company Limited is considering the purchase of a new machine. Two alternative machine (X and Y) have been suggested each costing Rs.4,00,000. Earnings after taxation are expected to be as follows:

Year	**Cash Flow**	
	Machine X Rs.	**Machine Y Rs.**
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	1,60,000	80,000

The company has a target rate of return on capital of 10% and on the basis, you are required to compute the profitability of the machines and state which alternative is preferable. The present value of Re.1 at 10% p.a. is given below.

Year	1	2	3	4	5
Discount factor	0.909	0.826	0.751	0.683	0.621

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