LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Sc.DEGREE EXAMINATION – **MATHEMATICS& COMPUTER SCI.**

FOURTHSEMESTER – APRIL 2017

CO 4211- FINANCIAL MANAGEMENT

Date: 29-04-2017 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART – A

ANSWER ALL QUESTIONS: (10x2=20 marks)

1. What is an operating cycle?
2. Mention the different types of leverages.
3. What is financial management?
4. Define Capital structure
5. What is meant by pay back period?
6. Mention the different types of cost of capital.
7. ABC Ltd issued 12% debentures of ₹.5,00,000 at par. The tax rate is 40%. Calculate after tax cost of debt.
8. From the following particulars calculate value of Raw material, labour and Overhead per annum:
   Element of cost: Raw material 40%, Labout 10%, Overheads 30%
   Selling Price ₹50 p.u, Production in units : 13,000 p.a
9. A project has an initial investment of ₹2,00,000. It will produce cash flows after tax of ₹ 50,000 p.a for six years. Compute pay back period for the project.
10. Compute the value of Company A using Net Income approach from the following details:
    Earnings before Interest and Tax ₹. 10,00,000,Tax rate 50%, Cost of equity 10%, 20,000 12% Debentures of ₹100 each.

PART–B

ANSWER ANY FOUR QUESTIONS: (4x10= 40 marks)

11. What is cost of capital? Explain its significance.
12. Explain the objectives of financial management.
13. Explain the merits and demerits of ARR method
14. Explain the different sources of working capital.
15. Calculate EBIT, EAT, Operating leverage, Financial leverage, Combined leverage and Earnings per share from the following information:
    Sales ₹10,50,000, Variable cost ₹ 7,67,000, Fixed cost ₹75,000, Interest ₹ 1,10,000,
    Tax ₹ 29,400, Number of equity shares 4,000
16. Dabur Ltd has equity share capital of ₹12,00,000 divided into shares of ₹100 each. It wishes to raise further ₹ 6,00,000 for expansion. The company plans the following financing alternatives:
    Plan A – By Issuing shares only.
    Plan B – ₹2,00,000 by issuing equity shares and ₹4,00,000 through debentures @ 10% p.a.
    Plan C – ₹ 2,00,000 by issuing equity shares and ₹ 4,00,000 by issuing 9% Preference shares.
    Plan D – By raising term loan only at 10% p.a.
    You are required to suggest the best alternative giving your comment assuming that the estimated EBIT after expansion is ₹.2,25,000 and corporate tax @40%.

17. A company was recently formed to manufacture a new product. It has the following capital structure:

	₹
9% Debentures	10,00,000
7% Preference shares	4,00,000
Equity shares(48,000 shares	16,00,000
Retained earnings `	10,00,000
	40,00,000

The market price of equity share is ₹.80. A dividend of ₹. 8 per share is proposed. The company has marginal tax rate of 50% and shareholder's individual tax rate is 25%. Compute after tax cost of debt, cost of equity, cost of retained earnings, weighted cost of capital of the company.

PART – C

Answer any TWO questions: (2x20=40 marks)

18. Explain the various functions of financial manager

19. Explain the factors determining capital structure.

20. Good luck Ltd wants an estimate of the working capital. Prepare the estimate from the following information:

Budgeted sales ₹. 20 per unit –₹. 5,20,000 p.a

Analysis of selling price per unit:

Raw materials ₹ 6, Labour ₹8, Overheads₹4, Profit₹2

You are informed that:

Raw materials will remain in godown before issue of three weeks and

finished goods for two weeks.

Processing in the factory will take three weeks.

Suppliers will give 5 weeks credit and customers will acquire 8 weeks credit.

Labour and overheads will acquire evenly throughout the year.

Provision for contingencies 10%.

21. X Ltd is considering investing in a project requiring a capital of Rs. 4,00,000. Income after depreciation but before tax are as follows:

Year	1	2	3	4	5
Profits(Rs.)	2,00,000	2,00,000	1,60,000	1,60,000	80,000

Depreciation @20% on original cost and taxation @50%.

You are required to evaluate the project according to each of the following methods

(a)Pay back period, (b) NPV method taking cost of capital at 10%, (c) P.I method, (d) IRR method.

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