LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Sc. DEGREE EXAMINATION – **COMPUTER SCIENCE & MATHAMATICS**

FOURTH SEMESTER – APRIL 2015

CO 4211 - FINANCIAL MANAGEMENT

Date : 25/04/2015 Dept. No. Max. : 100 Marks
Time : 09:00-12:00

PART- A

Answer All the questions: (10X2=20)

1. What is optimum capital structure?
2. State any four importance of financial management
3. Define time value of money
4. What is working capital?
5. What do you mean by financial breakeven point?
6. Define working capital
7. What do you mean by wealth maximization?
8. Differentiate permanent working capital from temporary working capital
9. Define financial leverage
10. What do you mean by over capitalisation?

PART- B

Answer any **FOUR** questions: **(4X10=40)**

11. Explain different factors determining capital structure decisions
12. X ltd is evaluating an investment which would require Rs 5, 00,000 as initial capital and it is expected to generate the following cash in flows

Year	**Cash inflows**
i)	Rs 2,00,000
ii)	Rs 2,50,000
iii)	Rs 3,00,000
iv)	Rs 2,00,000
v)	Rs 1,00,000

The discounting factor is 10% and the pay pack period cut off point is three years. Assuming the tax rate to be 50% evaluate the investment proposal under the following methods.

 i) Pay pack period method
 ii) Net present value method
 iii) Profitability index

13. From the following data calculate;
 i) Degree of operating , financial and combined leverage
 ii) What is the percentage of change in EBIT associated with 20% change in sales?

Sales	Rs10, 00,000
Variable cost	Rs 6, 00,000
Fixed cost	Rs 2, 00,000
Interest expenses	Rs 1, 00,000
Tax rate	50%

14. G ltd has the total capitalisation of Rs 10 lakths consisting entirely of equity shares of Rs 50 each. It wishes to raise another Rs 5 lakh for expansion through one of the two possible financing plans

i) All equity shares of Rs 50 each

ii) All debenture carrying 9 %

The present level of EBIT is Rs 1, 40,000 and income tax rate is 50 %. You are required to calculate indifference point of EBIT and verify the same.

15. Elaborate different types of working capital. How would you finance the same?

16. A company's capital structure consist of the following

Equity shares of Rs 100 each	Rs 20, 00,000
Retained earnings	Rs 10, 00,000
11% preference shares	Rs 12, 00,000
8% debentures	Rs 8, 00,000

The company earns 12% on its capital employed. The income tax rate 50% . The company requires Rs 25 lakhs for its modernization programme for which it has identified the following alternatives

i) Issue of equity shares for 125

ii) Issue of debentures

It is estimated that the P/E ratios for the above two options are 20 and 18. As a finance manager which alternative would you recommend?

17. Explain different stages involved in operating cycle. How would you calculate operating cycle period in days?

PART- C

Answer any **TWO** questions: **(2X20=40)**

18. What is capital budgeting decision? Taking an example of your own figures evaluate different techniques of capital budgeting

19. You are supplied with following information

Production of the year 57600 units
Finished goods in store for 8 weeks
Raw materials in store for two months
Work in progress is one month
Credit allowed by creditors 1.5 months
Credit given to debtors 2 months
Selling price per unit Rs 50
Raw material per unit 50% of the selling price
Direct wages 20 % of selling price
Manufacturing and administrative overheads 15 % of selling price
There is a regular production and sales cycle and wages overheads accrue evenly. Wages are paid in the next month of accrual. Full material is used in the beginning of the production cycle. You are requires to estimate company's working capital requirement under cash cost method.

20. X ltd has the following capital structure

Particulars	Rs Book value	Rs Market value
Equity share capital	5, 00,000	9, 00,000
(50,000 shares of 10 each at par)		
13 % Preference share capital	1, 00,000	90,000
(1000 shares of Rs 100 each at par)		
Reserves and surplus	2, 00,000	-----
14 %debentures	3, 00,000	2, 00,000
(3000 debentures of Rs 100 each at par)		
	11, 00,000	11,90,000

The expected dividend per share is 2 and the dividend per share is expected to grow at a rate of 7% for ever preference shares are redeemable after 5 years and it is been issued at 10% discount. Debenture are redeemable after 6 yrs and it is been issued at 10% discount. The tax rate for the company is 50%. You are required to calculate cost of capital of existing capital structure using i) Market value as weights ii) Book value as weights.

21. Elaborate different factors affecting working capital requirements of a company.

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