STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086
(For candidates admitted during the academic year 2019-20 and thereafter)

COURSE CODE: 19BA/MC/IF44

B.B.A DEGREE EXAMINATION APRIL 2022
BUSINESS ADMINISTRATION
FOURTH SEMESTER

COURSE : MAJOR CORE
COURSE TITLE : INTRODUCTION TO FINANCIAL MANAGEMENT
TIME : 3 HOURS **MAX. MARKS: 100**

Section - A

Answer ALL Questions: **(10x2=20)**

1. Define Financial Management.
2. Differentiate between Capitalisation and Capital structure.
3. State the importance of Cost of Capital.
4. What is ARR?
5. Write a note on Working Capital?
6. Sakthi Ltd. issued 20,000 8% debentures of Rs.100 each on 1st April 2021. The cost of issue was Rs.50,000. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax) if they were issued at par

7. Raj makes an initial deposit of Rs.2,00,000 in Laxmi Bank Ltd. Interest is compounded at 10% p.a for 6 years. Compute the amount of maturity.

8. A project costs Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its pay-back period.

9. From the following information relating to P Ltd., Calculate operating cycle assuming a 360 day year

Stock Holding:	Raw materials	-	2 Months
	W.I.P	-	15 Days
	Finished goods	-	1 Month
	Average debt collection period	-	2 Months
	Average payment period	-	45 Days

10. What is the present value of perpetuity cash flow of Rs.1,500 per year at an interest rate of 8%.

Section – B

Answer Any FIVE Questions **(5x8=40)**

11. Discuss the approaches to financial management.
12. Describe the factors influencing working capital.
13. Calculate the maturity amount if Rs.2,00,000 is invested for 2 years at 12% compounded :
    a. Annually b. Semi-annually c. Quarterly
14. Sumo Ltd. has issued 6000, 8% preference shares of Rs.100 each. The floatation costs are Rs.10,000. Compute the cost of preference share capital if the shares are issued (a) at par (b) at a premium of 10% and (c) at a discount of 10%.

15. From the following information, prepare a statement showing the estimated working capital requirements:

Budgeted sales – Rs.2,60,000 p.a

Details of cost and profit for each unit

Particulars	Rs.
Raw Materials	3
Labour	4
Overheads	2
Profit	1
Selling Price per unit	**10**

It is estimated that:

(a) Pending use, raw materials are carried in stock for three weeks and finished goods for two weeks.
(b) Factory processing will take 3 weeks.
(c) Suppliers will give five weeks credit and customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

16. The following are the cash inflows and outflows of a certain project.

Year	Outflow	Inflow
0	1,50,000	
1	30,000	30,000
2		30,000
3		50,000
4		60,000
5		40,000

The salvage value at the end of 5 years is Rs.40,000. Taking the cut off rate of 10%. Calculate net present value. Discuss it according to NPV method assuming the P.V. factors for 1st, 2nd, 3rd, 4th and 5th year - 0.909, 0.826, 0.751, 0.683 and 0.620 respectively.

17. The management of Joy Ltd., decided to purchase Machine X or Machine Y. The following information is available:

Particulars	Machine X	Machine Y
Cost of machine (Rs)	42,000	15,000
Estimated life (years)	6	7
Sales per year (Rs.)	30,000	30,000
Costs per annum:		
Labour (Rs.)	2,000	10,000
Materials(Rs.)	12,000	12,000
Overheads(Rs.)	4,000	3,000

Advice the management with respect to the choice of machine on the basis of pay-back period.

Section – C

Answer Any TWO Questions **(2x20=40)**

18. A company is considering an investment proposal to install a new control system. The projects will cost Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The company's tax rate is 55%. The firms uses straight line method of depreciation. The estimated profits before depreciation from the proposed investment proposal are as follows:

Year	1	2	3	4	5
Profits (Rs)	10,000	11,000	14,000	15,000	25,000

Compute the following:
(a) Pay-Back Period
(b) Average Rate of Return
(c) Net Present Value at 10% discount rate
(d) Profitability Index at 10% discount rate
(e) Internal Rate of Return

19. S ltd has the following capital structure:

4,000 Equity Shares of Rs.100 each	Rs.4,00.000
10% Preference Shares	1,00,000
11% Debentures	5,00,000

The current market price of the share is Rs.102. The company is expected to declare a dividend of Rs.10 at the end of the current year, with an expected growth rate of 10%. The applicable tax rate is 50%
(i) Find out the cost of equity capital and the WACC
(ii) Assuming that the company can raise Rs.3,00,000 12% debentures, find out the new WACC if (a) dividend rate is increased from 10% to 12% (b) growth rate is reduced from 10% to 8% and (c) market price is reduced to Rs.98.

20. The following information has been supplied by a borrower:
(i) Expected level of production – 3,00,000 units
(ii) Raw materials to remain in stock on an average – 2 months
(iii) Processing period for each unit of product – 1 month
(iv) Finished goods remain in stock on an average – 3 months
(v) Credit allowed to the customers from the date of despatch – 3 months
(vi) Expected ratios of cost to selling Price
(a) Raw material – 60%
(b) Direct wages – 10%
(c) Overheads – 20%
(vii) Selling price per unit – Rs.10
(viii) Expected margin on sales – 10%

You are required to estimate the working capital requirements of the borrower.

21. (a) ABC Ltd has borrowed Rs.5 lakhs to be repaid in equal instalments at the end of each of the next 5 years. The interest rate is 16%. Calculate the amount of each payment and also prepare an amortization schedule.
(b) Rane Ltd. has issued debentures of 20 lakh to be repaid after 5 years. How much should the company invest in a sinking fund earning 10% in order to be able to repay debentures?
(c) Calculate the future value of the following series of payments at the end of 4 years.
Rate of interest is 9%
P1 = Rs.1,500 at the end of first year
P2 = Rs.3,000 at the end of second year
P3 = Rs.4,500 at the end of third year
P4 = Rs.6,000 at the end of fourth year

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