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 2023
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 the term Financial Management.

2. What is a sinking fund?

3. Ram 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.

4. Compute ARR from the following data:
   Cost of asset: Rs.4,00,000
   Useful life: 5years
   Cash flow after tax (CFAT) Rs.1,72,000 p.a.

5. A firm issues debentures of Rs.1,00,000 and realizes Rs. 98,000 after allowing 2% commission to brokers. Debentures carry interest rate at of 10%. The debentures are due for maturity at the end of 10^{th} year. Calculate cost of debt.

6. State the difference between Capital structure and capitalization.

7. State the meaning of capital budgeting.

8. A project has an initial investment of Rs.2,00,000. It will produce cash flows after tax of Rs. 50,000 per annum for six years. Compute the Pay back period for the project.

9. Write a short note on Retained earnings.

10. From the following information extracted from the books of a manufacturing company, compute the operating cycle in days.
    Period covered:365 days
    Average period of credit allowed by suppliers:16 days

Average total of debtors outstanding	4,80,000
raw materials consumption	44,00,000
total production cost	1,00,00,000
total cost of sales	1,05,00,000
sales of the year	1,60,00,000
value of average stock maintained	
Raw materials	3,20,000
work-in-progress	3,50,000
finished goods	2,60,000

Section – B

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

11. Explain the important functions of Financial Manager.
12. Calculate the maturity value of Rs. 20,000 is paid annually for 7 years at 12% compounded (a)annually (b)Semi-annually (c) Quarterly

13. Malaiya Ltd. issued 60,000 15% irredeemable preference shares of Rs.100 each. The issues expenses were Rs.60, 000.Determine the cost of preference capital if shares are issued 1) At Par 2) At premium of 10% 3) AT a discount of 5%.

14. Excellent Ltd., is producing articles mostly by manual labour and is considering to replace it by a new machine. There are two alternative models A and B of new machine. Prepare a statement of Profitability showing the pay-back period from the following information

Particulars	**Machine A**	**Machine B**
Estimated life of Machine	4 years	5 years
Cost of Machine	Rs 90000	Rs 180000
Estimated savings in scrap	5000	8000
Estimated savings in direct wages	60000	80000
Additional cost of maintenance	8000	10000
Additional cost of supervision	12000	18000

Ignore taxation.

15. A Ltd., issued 9% 10,000 Pref shares of Rs 100 each. The issue expenses are Rs 5 per share. Calculate the cost of Preference Sh, capital if they are issued at (a) Par, (b) Premium of 10% (c) Discount of 5%.

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

Budgeted sales-Rs.2,60,000 p.a

Analysis of cost and profit of each unit

Raw materials	3
Labour	4
Overheads	2
Profit	1
selling price per unit	10

It is estimated that, Pending use,

1. Raw materials are carried in stock for three weeks and finished goods for two weeks.
2. Factory processing will take 3 weeks
3. Suppliers will give five weeks credit and customers will require eight weeks credit.
4. It may be assumed that Production and overheads accrue evenly throughout the year

17. Briefly explain the theories of Capital Structure.

Section – C

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

18. Cost sheet of a company provide the following data:

Particulars	**Cost per unit (RS.)**
Raw materials	50
Direct labour	20
Overheads (Including Depreciation Of Rs.10)	40
Total cost	110
Profit	20
Selling price	130

Additional information:
Average raw materials in stock for 1 month. Average materials in progress are for half-a month. Credit allowed by suppliers- one month. Credit allowed to Debtors- one month. Average time, lag in payment of wages- 10 days, Average time lag in payment of overheads -30 days. 25% of the sales are on cash basis. Cash balances expected to be Rs.1,00,000. Finished goods lie in the Warehouse for -1 month.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 54000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly.

19. From the following capital structure of a company, compute the overall cost of capital using
1. Book value weights, 2. Market value weights.

particulars	book value	market value
equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	-
preference share capital	10,000	10,000
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%

20. Kincaid ltd has a EBIT of Rs.6,00,000. Presently the company is entirely financed by equity capital of Rs.40,00,000 with equity capitalization rate of 16%. It is contemplating to redeem a part of its capital by introducing debt financing. It has two options to raise debt to the tune of 30% or 50% of the total funds.
It is expected that for debt financing upto 30% will cost 10% and equity capitalization rate will rise to 17%. However, if the firm opts for 50% debt, it will cost 12% and equity capitalization rate will be 20%.
Compute the market value of the firm, market value of equity and the overall cost of capital.

21. A company is considering a proposal of installing a drying equipment. The equipment would involve a cash outlay of Rs.9,00,000 and net working capital of Rs.1,20,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purposes.

The estimate before tax cash inflows are give below:

Year	1	2	3	4	5
Before tax cash inflows (Rs.'000)	360	412.5	315	270	240

The applicable income tax rate to the company is 35%. If the company's opportunity cost of capital is 12%, calculate the equipment's (a) payback period; (b) discounted payback period: (c) NPV and (d) IRR.

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