

Daffodil International University
Faculty of Business & Entrepreneurship
Department of Business Administration
Program: BBA

Semester: Summer 2025
Time: 2 Hours
Course Code: 0412-221
Section: All

Examination: Final-Term
Full Marks: 40
Course Title: Financial Management
Teachers' Name: DMK, DAZR, SAA, SNR, DMRH, MSK, MOG, DS

Answer the following questions

- 1.
- a) Explain different types of leverage and fixed costs related to leverage. (CLO 1, L2) 02
- b) Suppose you have recently joined in a renowned oil company as a financial analyst. The company's management plans to increase its current annual sales volume of 80,000 units by 25% in the upcoming year. As part of your role, you are asked to evaluate the company's cost structure and capital structure to analyze the potential impact of this sales growth.

You are provided with the following financial data: (CLO 2, L4)

Particulars	Value
Selling price per unit	Tk. 40
Variable cost per unit	Tk. 18
Fixed cost	Tk. 8,60,000
Total Assets	Tk. 20,00,000
Common stock capital (Tk. 100/share)	Tk. 8,00,000
10% Debenture (Debt capital)	Tk. 12,00,000
Corporate tax rate	25%

Required:

- i) Calculate the **Degree of Operating Leverage (DOL)** and analyze its impact on EBIT due to the expected increase in sales. 03
- ii) Compute the **Degree of Financial Leverage (DFL)** and assess its effect on **Earnings Per Share (EPS)**. 03
- iii) Calculate the **Degree of Total Leverage (DTL)** and examine the result in the context of the company's risk exposure. 03

- 2.
- a) Explain the factors that influence the capital structure decision of a firm. Compare debt financing and equity financing. (CLO 1, L2) (2+2) = 03

b) Gemcon Ltd. is planning to expand its production capacity, which will require an additional capital investment of Tk. 50 lakh. As the financial manager of the company, you are evaluating the most suitable financing option to raise the required funds. (CLO 3, L5)

The company is considering the following four financing alternatives:

- i) Issue 13% debentures for the entire amount.
- ii) Issue 12% preferred shares for the entire amount.
- iii) Issue common equity at Tk. 10 per share for the entire amount.
- iv) Use a combination of 50% debt (14% debentures) and 50% equity (common shares at Tk. 10 per share).

The expected Earnings Before Interest and Taxes (EBIT) is Tk. 20 lakh, and the corporate tax rate is 40%.