

C 5114

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Name.....

Reg. No.....

**FOURTH SEMESTER B.B.A. DEGREE (SUPPLEMENTARY/IMPROVEMENT)
EXAMINATION, MAY 2016**

(UG—CCSS)

Core Course

BB IVB 06—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 30 Weightage

Objective type questions.

Answer all twelve questions.

I. Choose the correct answer :

- 1 Ratio of Net Income to Number of Equity Shares is known as :
 - (a) Price Earnings Ratio.
 - (b) Net Profit Ratio.
 - (c) Earnings per Share.
 - (d) Dividend per Share.
- 2 In capital budgeting, the term Capital Rationing implies :
 - (a) That no retained earnings available.
 - (b) That limited funds are available for investment.
 - (c) That no external funds can be raised.
 - (d) That no fresh investment is required in current year.
- 3 Debt Financing is a cheaper source of finance because of :
 - (a) Time Value of Money.
 - (b) Rate of Interest.
 - (c) Tax-deductibility of Interest.
 - (d) Dividends not Payable to lenders.
- 4 Dividend irrelevance argument of MM Model is based on :
 - (a) Issue of Debentures.
 - (b) Issue of Bonus Share.
 - (c) Arbitrage.
 - (d) Hedging.

Turn over

Fill in the blanks :

- 5 Issue of shares by a company to the existing shareholders for a consideration is called _____.
- 6 WACC stands for _____.
- 7 The formulae for calculating Financial leverage is _____.
- 8 Working Capital Turnover measures the relationship of Working Capital with _____.

Match the following :-

- | | | |
|-----------------------|---|-----------------------------|
| 9 Net income approach | - | Capital asset. |
| 10 Ageing schedule | - | Trading on equity. |
| 11 Debt capital | - | Capital structure decision. |
| 12 Machinery | - | Receivables management. |

(12 × ¼ = 3 weightage)

II. Short answer questions. Answer all *nine* questions :

- 13 What is wealth maximization ?
- 14 What is debtors turnover ratio ?
- 15 What is cost of debt ?
- 16 What is trading on equity ?
- 17 What is EBIT ?
- 18 How would you calculate cost of preference shares ?
- 19 Name any *two* theories of dividend policy.
- 20 What is Earnings per share ?
- 21 What is Capital gearing ?

(9 × 1 = 9 weightage)

III. Short essay or paragraph questions. Answer any *five* questions from seven :

- 22 Explain the importance of different types of leverages.
- 23 The capital structure of a ABC limited consists of equity share capital of Rs. 1,00,000 (10,000 shares of Rs.10 each) and 8% debentures of Rs.50,000. You are required to calculate and verify the degree of financial leverages on earnings before interest and tax (EBIT) at a level of Rs.20,000.

- 24 The share of a company is selling at Rs.40 per share and it had paid a dividend of Rs.4 per share last year. The investors market expects a growth rate of 5% per year. Compute the company's cost of equity capital.
- 25 What is MM approach of capital structure ? Give its salient features.
- 26 Explain the factors determining working capital requirements of a firm.
- 27 Calculate Debtors turnover ratio and Average collection period from the following :

| | Rs. |
|--------------------------------------|------------|
| Cash sales during the year | – 1,50,000 |
| Credit sales during the year | – 2,70,000 |
| Return inward | – 20,000 |
| Trade debtors in the beginning | – 55,000 |
| Trade debtors at the end | – 45,000 |
| Provision for bad and doubtful debts | – 5,000 |

Take 360 days in a year and all returns are from credit sales.

- 28 A company's total investment in assets is Rs. 10,00,000. It has 1,00,000 shares of Rs.100 each. Its expected rate of return on investment is 30% and the cost of capital is 18%. The Company has a policy of retaining 25% of its profits. Determine the value of the firm using Gordon's model.

(5 × 2 = 10 weightage)

IV. Essay questions. Answer any *two* questions from three :

- 29 Jiya limited is engaged in large scale consumer retailing. From the following information, you are required to estimate their working capital requirement :

| | |
|--|---------------|
| Projected annual sales | – Rs.35 lakhs |
| Percentage of net profit on cost of sales | – 25% |
| Average credit period allowed to debtors | – 8 weeks |
| Average credit period allowed by creditors | – 3 weeks |
| Average stock carrying (in terms of sales requirement) | – 6 weeks |

Add 10% of computed figures to allow for contingencies.

Turn over

- 30 One of the three projects of the company is doing poorly and is being considered for replacement. The projects (A, B and C) are expected to require Rs. 2,00,000 each and have an estimated life of 5 years, 4 years and 3 years respectively. They have no salvage values. The required rate of return is 10%. The anticipated cash flows after taxes (CFAT) for the three projects are as follows :

| CFAT (Rs.) | | | |
|------------|----------|--------|----------|
| Year | A | B | C |
| 1 | 50,000 | 80,000 | 1,00,000 |
| 2 | 50,000 | 80,000 | 1,00,000 |
| 3 | 50,000 | 30,000 | 10,000 |
| 4 | 50,000 | 30,000 | — |
| 5 | 1,90,000 | — | — |

Rank each project applying the method of payback period and post-pay back profitability.

31. What are the objectives of Financial Management ? Should the goal of financial decision making be profit maximization or wealth maximization ? Discuss.

(2 × 4 = 8 weightage)