

C 3940

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Name.....

Reg. No.....

FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, APRIL 2016

(CUCBCSS—UG)

Core Course

BBA IV B 06—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 80 Marks

Part A

I. Objective Type Questions. Answer all *ten* questions :

(A) Fill in the blanks :

- 1 Working capital is the difference between current asset and _____.
- 2 Cost of capital serves as _____ rate for capital investment decisions.
- 3 Trading on equity implies having a _____ debt-equity ratio.
- 4 It is risky to have both operating leverage and _____ leverage at a high level.
- 5 The expected return of equity shareholders is the cost of _____.

(B) State whether the following statements are True or False :

- 6 Traditionally the role of finance manager was restricted to acquisition and efficient allocation of funds
- 7 The terms "permanent working capital" and "core current assets" have synonymous meanings.
- 8 Retained earnings have no cost to the firm.
- 9 Investment decisions and capital budgeting are same.
- 10 Financial statements are an important source of information to shareholders and stakeholders.

(10 × 1 = 10 marks)

Turn over

Part B

II. Short answer type questions. Answer any *eight* questions from ten in two or three sentences each :

- 11 What is financial management?
- 12 What is cost of capital?
- 13 Write a note on trading on equity?
- 14 Describe in brief the aims of finance function.
- 15 What is capital structure of a company?
- 16 X Ltd. issues Rs. 50,000 8 % debentures at par. The tax rate applicable to the company is 50 %. Compute cost of capital.
- 17 A firm has sales of Rs. 10,00,000, variable cost of Rs. 7,00,000 and fixed cost of Rs. 2, 00,000 and debt of Rs. 5, 00,000 at 10 % rate of interest. Calculate financial leverage.
- 18 B Ltd. has annual sales of Rs. 25,00,000, variable cost of Rs. 15,00,000, fixed cost of Rs. 5,00,000. It has issued 12 % debentures of Rs. 20, 00,000. Calculate composite leverage.
- 19 X Ltd proposes to issue 1, 00,000, 12 % preference shares of Rs. 10 each. Issue expenses are estimated at 1 % of face value. Ignore redemption period. Calculate cost of capital if shares are issued at a discount of 5 %.
- 20 A firm's return available to equity share holders is 15 %, the average tax rate of share holders is 40 % and it is expected that 2 % is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings ?

(8 × 2 = 16 marks)

Part C

III. Short Essay or Paragraph questions. Answer any *six* questions from eight in 150 to 200 words :

- 21 Explain the objectives of financial management?
- 22 Discuss the various motives of holding cash.
- 23 Why are capital budgeting decisions more important?

- 24 'Every Manager has to take three major decisions while performing the finance function'. Briefly explain them.
- 25 A simplified income statement of Z Ltd. is given below. Calculate the operating leverage :

Income statement of Z Ltd. For the year ended 31st March 2015

Particulars	Rs.
Sales	10,50,000
Variable cost	7,67,000
Fixed cost	75,000
Earnings before interest and tax (EBIT)	2,08,000
Interest	1,10,000
Tax (30 %)	29,400
Net Income	68,600

- 26 A company issues 30,000 10 % preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued :
- At par.
 - At a premium of 10 %.
 - At a discount of 5 %.
- 27 Calculate the payback period for a project which requires a cash outlay of Rs. 10,000 and generate cash inflows of Rs. 2,000, Rs. 4,000, Rs. 3,000 and Rs. 1,000 in the first, second third and fourth year respectively.
- 28 X Ltd. is expecting an annual EBIT (earnings before interest and taxes) of Rs. 3, 00,000. The company has Rs. 4, 00,000 in 10 % debentures. The cost of equity capital or capitalisation rate is 12.5 %. You are required to calculate the total value of the firm according to the Net Income Approach.

(6 × 4 = 24 marks)

Turn over

Part D

IV. Essay questions. Answer any two questions in 600 to 800 words each :

29 What do you understand by capital budgeting ? Why is capital budgeting important to management ?

30 Explain the meaning of capital structure and mention the factors affecting capital structure.

31 Project X initially costs Rs. 25,000. It generates the following cash inflows :

Year	Cash flows	Present value of Re. 1 at 10 %
1	Rs. 9,000	0.909
2	Rs. 8,000	0.826
3	Rs. 7,000	0.751
4	Rs. 6,000	0.683
5	Rs. 5,000	0.621

Taking the cut-off rate as 10 %, suggest whether the project should be accepted or not.

(2 × 15 = 30 marks)