

**FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, APRIL 2017**

(CUCBCSS-UG)

Core Course

BBA IVB 06—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 80 Marks

**Part A (Objective type Questions)***Answer all ten questions.***(A) Fill in the Blanks :**

- 1 Cost of each component of Capital is termed as \_\_\_\_\_ cost.
- 2 \_\_\_\_\_ refers to make up of a Firm's Capitalisation.
- 3 Cost of capital comprises both \_\_\_\_\_ and financial risks.
- 4 The most appropriate dividend policy is payment of \_\_\_\_\_.
- 5 Net Working Capital = Current asset minus \_\_\_\_\_.

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

- 6 Main objective of Financial Management is maximisation of profits.
- 7 Cash management is a trade off between cost of carrying cash and the necessity of maintaining liquidity.
- 8 High breakeven point would indicate a high Operating Leverage.
- 9 Cash flows from a project can be estimated accurately.
- 10 Different sources have same cost of Capital.

(10 × 1 = 10 marks)

**Part B (Short answer type questions)***Answer any eight questions from ten in two or three sentences each.*

- 11 What is Gross Working Capital concept ?
- 12 What is Financial Leverage ?
- 13 What do you meant by Operating Cycle ?
- 14 What is Pay-back period ?
- 15 What is Finance Function ?

**Turn over**

- 16 A Ltd. issues Rs.50, 000 8% debentures at a discount of 5%. The tax rate is 50%. Compute the cost of debt 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 Operating 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 financial 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 par.
- 20 A Firm's return available to equity share holders is 20%, 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 (Short essay or paragraph questions)**

Answer any **six** questions from eight in 150 to 200 words.

- 21 What do you understand by the pay-back period method ?
- 22 What is Receivables Management ? Discuss the various dimensions of Receivables Management.
- 23 What is meant by cost of capital ? Explain the significance of Cost of Capital.
- 24 Describe the aims of Finance Function.
- 25 A simplified income statement of Z Ltd. is given below. Calculate the Combined 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 10,000 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. 30,000 and generate cash inflows of Rs. 6,000, Rs. 12,000, Rs. 9,000 and Rs. 3,000 in the first, second, third and fourth year respectively.
- 28 X Ltd. is expecting an annual EBIT (earnings before interest and taxes) of Rs. 1,00,000. 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)

#### Part D (Essay questions)

Answer any **two** questions in 600 to 800 words each.

- 29 What are the advantages of Adequate Working Capital ?
- 30 Define Capital Budgeting ? Enumerate briefly the major steps in Capital Budgeting ?
- 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. 10,000	0.909
2	Rs. 9,000	0.826
3	Rs. 8,000	0.751
4	Rs. 7,000	0.683
5	Rs. 6,000	0.621

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

(2 × 15 = 30 marks)