

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 x 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 x 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 :

- (a) At par.
- (b) At a premium of 10 %.
- (c) 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 x 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 importer_ 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 x 15 = 30 marks)