C 80796 (Pages : 3) Name..............................

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FOURTH SEMESTER B.Com./B.B.A. DEGREE EXAMINATION, APRIL 2020

(CUCBCSS—UG)

B.B.A.

BBA IVB 06—FINANCIAL MANAGEMENT

Time : Three Hours Maximum : 80 Marks

Part A

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

(A) Fill up the blanks :

1 The cost of debenture is ———— as compared to shares.

2 A firm follows a constant dividend pay-out ratio, if the earning increase by 20 percent then dividend will be ————.

3 Shares of face value of Rs. 10 are 80% paid up. The company declares a dividend of 50%, amount of dividend per share is ————.

4 Trading on equity also known as ————.

5 Profitability index is also known as————.

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

6 EBIT is also known as operating profits.

7 Dividend is compulsorily payable to preference shareholders.

8 In India, dividends can be paid only out of profits.

9 All equity plan and Debt-equity plan have no indifference level of EBIT.

10 MM model deals with irrelevance of dividend decision.

(10 × 1 = 10 marks)

Part B

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

11 What is traditional approach of financial management ?

12 What is systematic risk ?

13 What do you mean by mutually exclusive project ?

14 What is arbitrage process ?

15 Explain various cost associated with inventory management.

Turn over

16 AB Ltd issues 10,000, 10% Debentures of Rs. 10 each and realises Rs. 95,000 after allowing 5% commission to brokers. The debenture redeemed after 10 years. Calculate the effective cost of debt before tax.

17 The daily demand for a mechanical part is about 25 units, Every time an order is placed, a fixed cost of Rs. 25 is incurred. The daily holding cost per unit is 40 paise, determine the economic lot size.

18 Project cost Rs. 5,00,000 and yield annually a profit of Rs. 80,000 after depreciation at 12% p.a. but before tax of 50% calculate payback period.

19 X Ltd. issues equity share of Rs. 100 each at a premium of 20%. Floatation cost including underwriting commission is Rs. 5 per share. The company expects to pay initial dividend Rs. 20 per share and it has estimated that the dividend rate will grow by 5%. Find the cost of equity.

20 A firm has annual sales of 1,000 unites. The selling price per unit is Rs. 200. Variable cost per unit is Rs. 50. Fixed cost amounted to Rs. 1,00,000. Calculate operating leverage.

(8 × 2 = 16 marks)

Part C

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

21 Explain the functions of financial management.

22 State the factors determining the cost of capital.

23 Discuss the limitations of capital budgeting.

24 Discuss the factors affecting dividend policy of the firm.

25 CD Ltd. has annual sales of Rs. 25,00,000, variable cost of Rs. 15,00,000, fixed cost Rs. 5,00,000. It has issued 12% Debentures of Rs.20,00,000. Calculate composite leverage.

26 A project will cost Rs. 4,00,000. Its expected life would be 5 years. The company expects earnings before depreciation and tax as follows :

1st year Rs. 1,00,000, 2nd Year Rs. 1,00,000, 3rd Year Rs. 1,50,000, 4th and 5th year Rs. 2,00,000 each.

Assuming corporate tax rate is 30% and depreciation on straight line method, calculate ARR.

27 The following data are available for XYZ Ltd :

Earnings per share	...	Rs. 3.00
Internal Rate of Return	...	15%
Cost of Capital	...	12%

If Walters's valuation model holds, what will be the price per share when dividend pay-out ratio is 50%.

28 MNP Ltd. has a net operating income Rs. 5,00,000. It has 10% debentures of Rs. 20,00,000. The cost of equity capital has been estimated at 15%. Compute the value of the firm according to net income approach.

(6 × 4 = 24 marks)

Part D

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

29 What do you mean by working capital ? State the factors affecting working capital requirements of a business.

30 Discuss the traditional approach of capital structure.

31 Narmada Ltd. Consider the purchase of one machine. Suggest whether the machine is profitable on the basis Net Present Value basis :

	Cash flows	Present value factor @16%
Original cost	25,565	
Profit after tax : Year : 1	687	0.862
2	1,687	0.743
3	2,687	0.641
4	3,687	0.551
5	4,687	0.476

Expected rate of return of the company is 16%. Expected life of the machine five years and have will not have any salvage value.

(2 × 15 = 30 marks)