**C 61164** (Pages : 3) Name..................................

Reg. No..................................

# FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, APRIL 2019

(CUCBCSS—UG)

B.B.A.

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 Business risk can be measured by ———— leverage.

2 Net working capital = ———— minus Current liabilities.

3 ———— refers to make up of a firm's capitalisation.

4 Cost of capital comprises both ———— and financial risks.

5 Trading on equity implies having a ———— debt-equity ratio.

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

6 A finance manager's concern must be to maintain liquidity rather than profitability.

7 The internal rate of return and net present value are synonymous terms.

8 Cash management is a trade off between cost of carrying cash and the necessity of maintaining liquidity.

9 Different sources have same cost of capital.

10 Retained earnings have no cost to the firm.

(10 × 1 = 10 marks)

## Part B

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

11 Define capital budgeting.

12 What is operating leverage ?

13 What is financial leverage ?

**Turn over**

14 What is finance function ?

15 Write a note on trading on equity.

16 X Ltd. issued 1,00,000, 9% debentures of Rs. 20 each. Calculate cost of debt capital if the issue is at par. Ignore tax.

17 X Ltd. has issued 10,000 Equity Shares of Rs. 100 each and 5,000, 9% debentures of Rs. 100 each. The operating profit of the company during the year is Rs. 3,00,000. Compute financial leverage.

18 A Ltd. gives the following details. Compute operating, financial and combined leverage : Sales of Rs. 40,00,000 ; Variable cost of Rs. 25,00,000 ; Fixed cost of Rs. 6,00,000 ; 10% debt of Rs. 30,00,000 and Equity capital of Rs. 45,00,000.

19 The cost of equity of a company has been worked out as 20%. The personal income tax rate is 30%. Assuming that dividend received is subject to tax and the cost of investment including brokerage is 2%, determine cost of retained earnings of the company.

20 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. Compute operating, financial and combined leverage.

(8 × 2 = 16 marks)

## Part C

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

21 What is finance function ? Explain the scope of finance function.

22 What do you understand by cash management ? How can it be undertaken ?

23 What is meant by cost of capital ? Explain the significance of cost of capital.

24 Discuss the various motives of holding cash.

25 A Ltd. issues 1000 equity shares of Rs. 100 each at a premium of 10%. The company has been paying 20% dividend to equity shareholders for the past five years and expects to maintain the same in the future also. Compute the cost of equity capital. Will it make any difference if the market price of equity share is Rs. 160 ?

26 A project requires Rs. 20,000 as initial investment and it will generate an annual cash flow of Rs. 5,000 for ten years. Calculate the payback period.

27 X Ltd wants to raise an amount of Rs. 10,00,000 as a part of an expansion plan. The company collects Rs. 5,00,000 by issuing equity shares and Rs. 5,00,000 by issuing 8% debentures. Assuming the equity capitalisation rate as 10%. Calculate the overall cost of capital under Net Income approach.

28 A company has earnings before interest and taxes of Rs. 2,00,000. It expects a return on its investment at a rate of 12.5 %. You are required to find out the total value of the firm according to the Miller-Modigliani theory.

(6 × 4 = 24 marks)

## Part D

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

29 Northern Enterprises is an all equity firm and furnishes the following information :

Expected EBIT Rs. 2,00,000

Interest rate in the market—6%

Equity capitalisation rate (No debt is used)—10%

Assuming perfect market conditions and the firm raises a debt of Rs. 15,00,000. Find out :

(a) Value of the firm.

(b) Value of equity.

(c) Leveraged cost of equity.

30 In what respects is the objective of wealth maximisation superior to profit maximisation objective. Explain.

31 Define capital budgeting. Enumerate briefly the major steps in capital budgeting.

(2 × 15 = 30 marks)