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(Pages : 3)

Name.....

Reg. No.....

**FOURTH SEMESTER (CUCBCSS—UG) DEGREE EXAMINATION  
APRIL 2024**

B.B.A.

BBA IVB 06—FINANCIAL MANAGEMENT

(2018 Admission only)

Time : Three Hours

Maximum : 80 Marks

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

(A) Fill up the blanks :

- 1 \_\_\_\_\_ is called as “The science of money”.
- 2 \_\_\_\_\_ is defined as the possibility of the actual return being different from the expected return on an investment over the period of investment.
- 3 \_\_\_\_\_ decisions relate to the selection of assets in which funds will be invested by a firm.
- 4 The term \_\_\_\_\_ profit refers to the figure of profit as determined by the Income statement or Profit and Loss Account
- 5 \_\_\_\_\_ is the total time gap between the purchase of raw material and the receipt from debtors.

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

- 6 Financial leverage deals with the operating risk of the firm.
- 7 Cost of capital for Government securities is also known as risk-free rate of interest.
- 8 Maximizing risk is the basic objective of diversification.
- 9 Dividend Pay-out Ratio =  $DPS \div EPS$ .
- 10 According to the traditional approach, profit maximisation is the main objective of financial management.

(10 × 1 = 10 marks)

**Turn over**

**Part B**

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

- 11 What do you mean by optimum capital structure ?
- 12 What do you mean by investment decision ?
- 13 What is meant by scrip dividend ?
- 14 What do you mean by JIT ?
- 15 What is Economic Order Quantity ?
- 16 List out the four motives for holding cash.
- 17 A company issued 10,000,10 % preference shares of Rs. 10 each, Cost of the issue is Rs. 2 per share. Calculate the cost of capital if these shares are issued at a 10 % premium.
- 18 A project cost Rs. 5,00,000 and yields an annual cash inflow of Rs. 40,000 for 20 years, calculate the payback period.
- 19 Calculate the degree of operating leverage (DOL) from the following particulars :
 

|                        |     |          |
|------------------------|-----|----------|
| Outputs (Units)        | ... | 1,00,000 |
| Selling price per unit | ... | 0.10     |
| Fixed cost             | ... | 1,500    |
| Variable cost per unit | ... | 0.02     |
- 20 Write the formula for calculating the following :
  - a) Maximum Stock Level ; and
  - b) Minimum Stock Level.

(8 × 2 = 16 marks)

**Part C**

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

- 21 Briefly explain any four types of dividend policy.
- 22 What are the various steps involved in the capital budgeting process ?
- 23 Write notes on ABC analysis and VED analysis.
- 24 What are various short-term sources of working capital ?

- 25 A company issued Rs. 2,00,000, 10 % redeemable debentures at a discount of 10 %. The cost of floatation amount to Rs. 6,000. The debentures are redeemable after 5 years. Compute before-tax and after-tax cost of debt. The tax rate is 50 %.
- 26 The cost of goods sold by Surya Ltd. is Rs. 10,00,000. The opening inventory is Rs.80,000 and the closing inventory is Rs. 1,20,000. Find out the inventory turnover ratio.
- 27 Determine the payback period of a project which requires an initial outlay of Rs. 100,000 and generates cash inflow of Rs. 20,000, Rs. 30,000, Rs. 40,000, Rs. 50,000 and Rs. 30,000 in the first five financial years.
- 28 Cost of Equity is 18 %. The average income tax rate of shareholders is 30 %. Brokerage cost of 2 % is expected to be incurred while investing their dividends in alternative securities. What is the Cost of retained earnings ?

(6 × 4 = 24 marks)

**Part D**

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

- 29 Explain the various factors which influence or affect the dividend decision or policy of a firm.
- 30 What do you mean by working capital? What are its types ? Also, list out the dangers of deficiency of working capital as well as excessive working capital.
- 31 Calculate the degree of operating leverage (DOL), degree of financial leverage (DFL) and the degree of combined leverage (DCL) for the following firms and interpret the results.

| Particulars                    | Company A | Company B |
|--------------------------------|-----------|-----------|
| (a) Units sold                 | 1,20,000  | 30,000    |
| (b) Selling price per unit     | 1.20      | 10        |
| (c) Fixed cost                 | 14,000    | 28,000    |
| (d) Variable cost per unit     | 0.40      | 3         |
| (e) Interest on borrowed funds | 8,000     | 16,000    |

(2 × 15 = 30 marks)

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**FOURTH SEMESTER (CUCBCSS—UG) DEGREE EXAMINATION  
APRIL 2023**

B.B.A.

BBA IV B 06—FINANCIAL MANAGEMENT

(2017—2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

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

(A) Fill up the blanks :

- 1 Financial leverage is also known as \_\_\_\_\_.
- 2 \_\_\_\_\_ approach is suggested by David Durand.
- 3 \_\_\_\_\_ decisions relate to the selection of assets in which funds will be invested by a firm.
- 4 \_\_\_\_\_ working capital refers to that minimum amount of investment in all current assets which is required at all times to carry out a minimum level of business activities.
- 5 \_\_\_\_\_ debentures can be converted, fully or partially, into equity shares sometime after the date of issue.

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

- 6 Equity share capital represents the ownership interest in the company.
- 7 Net Present Value method recognises the Time Value of Money.
- 8 If  $P.I > 1$ , the project is rejected.
- 9 Risk is defined as the possibility of the actual return being different from the expected return on investment over the period of investment.
- 10 According to the MM approach, there exists a perfect capital market where all investors are rational.

(10 × 1 = 10 marks)

**Turn over**

**Part B**

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

- 11 What do you mean by interim dividend ?
- 12 What do you mean by factoring ?
- 13 List out any *four* features or nature of financial management.
- 14 What do you mean by "Trading on Equity ?
- 15 What is meant by capital rationing ?
- 16 What do you mean by capital structure ?
- 17 A project cost Rs. 4,00,000 and yields an annual cash inflow of Rs. 80,000 for 9 years, calculate the payback period.
- 18 A company issues 10,000, 10 % preference shares of Rs.100 each. The cost of the issue is Rs. 2 per share. Calculate the cost of preference share capital.
- 19 Compute the Profitability Index from the following details :

Initial investment = ₹20 lakh

Expected annual cash flows = ₹ 6 lakh for 10 years

Cost of capital @ 15 %.

The cumulative discounting factor @ 15% for 10 years = 5.019.

- 20 Calculate EBIT from the following particulars :

Sales = Rs. 50,00,000

Variable Cost = 12 % of Sales

Fixed cost = Rs. 2,00,000

(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 various importance or advantages of maintaining adequate working capital.
- 22 List down any *four* advantages and limitations of the Payback method.
- 23 List out the principles of dividend policy.

- 24 Distinguish between the profit maximization and the wealth maximization objectives of financial management.
- 25 XYZ Limited earns Rs. 5 per share, is capitalized at a rate of 10 % and has a rate of return on investments of 18 %. According to Walter's Formula, what should be the price per share at a 25 % dividend payout ratio ?
- 26 The required rate of return on equity is 24 % and the cost of debt is 12 %. The company has a capital structure mix of 80 % of equity and 20 % debt. What is the overall rate of return, the company should earn ? Assume no tax.
- 27 Calculate the Degree of Combined Leverage from the following particulars :

| Given                  | Last Year | Current Year |
|------------------------|-----------|--------------|
| Sales unit             | 2,000     | 2,800        |
| Selling Price per unit | ₹ 10      | ₹ 10         |
| EPS                    | ₹ 9.60    | ₹ 38.40      |

- 28 P Ltd. Provides the following information :

|                                      |     |          |
|--------------------------------------|-----|----------|
| Cash sales during the year           | ... | 3,00,000 |
| Credit sales during the year         | ... | 5,40,000 |
| Returns inward                       | ... | 40,000   |
| Trade debtors in the beginning       | ... | 1,10,000 |
| Trade debtors at the end             | ... | 90,000   |
| Provision for bad and doubtful debts | ... | 10,000   |

Calculate Debtor's Turnover Ratio and Average Collection Period.

(6 × 4 = 24 marks)

#### Part D

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

- 29 Explain financial, operating and combined leverage. Also, list out the differences between operating leverage and financial leverage
- 30 What do you mean by working capital ? Explain the various sources of working capital.

**Turn over**

31 ABC Ltd. manufactures picture tubes for TV. Details of their operations during 2020-2021 are :

- Ordering cost : Rs. 100 per order
- Inventory carrying cost : 20 % p.a.
- Cost of tubes : Rs. 500 per tube
- Normal usage : 100 tubes per week
- Minimum usage : 50 tubes
- Maximum usage : 200 tubes per week
- Lead time to supply : 6-8 weeks

Find out : (i) Economic order quantity ; (ii) Re-order level ; (iii) Maximum level ; and (iv) Minimum level.

(2 × 15 = 30 marks)

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**FOURTH SEMESTER (CUCBCSS—UG) DEGREE EXAMINATION  
APRIL 2022**

B.B.A.

BBA IVB 06—FINANCIAL MANAGEMENT

(2014—2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

**Part A**I. Objective Type Questions. Answer all *ten* questions. Each question carries 1 mark :

(A) Fill up the blanks :

- 1 WACC stands for \_\_\_\_\_.
- 2 \_\_\_\_\_ is defined as the possibility of the actual return being different from the expected return on an investment over the period of investment.
- 3 The term \_\_\_\_\_ profit refers to the figure of profit as determined by the Income statement or Profit and Loss Account.
- 4 Implicit cost is also known as \_\_\_\_\_.
- 5 Financial leverage deals with the \_\_\_\_\_ risk of the firm.

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

- 6 Dividend decisions relate to the selection of assets in which funds will be invested by a firm.
- 7 According to traditional approach, profit maximisation is the main objective of financial management.
- 8 Maximizing risk is the basic objective of diversification.
- 9 EPS stands for Earnings Per Savings.
- 10 Marginal cost of capital is the cost of additional funds.

(10 × 1 = 10 marks)

**Turn over**

**Part B**

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

Each question carries 2 marks :

- 11 What is the difference between gross working capital and net working capital ?
- 12 What do you mean by sweat equity ?
- 13 What is Re-order level ?
- 14 What is fixed capital ?
- 15 What is economic order quantity ?
- 16 What do you mean by property dividends ?
- 17 A company issues 10,000 10 % preference shares of Rs. 100 each. Cost of issue is Rs.2 per share. Calculate cost of preference share capital.
- 18 A project cost Rs. 2,00,000 and yields an annual cash inflow of Rs. 20,000 for 15 years, calculate payback period.
- 19 ABC Ltd has annual sales of 4000 units. The selling price per unit is Rs. 800. Variable cost per unit is Rs. 200. Fixed cost amounted to Rs. 4,00,000. Calculate operating leverage.
- 20 X Ltd. issued Rs. 2,00,000 8 % debentures at a premium of 10%. The floatation cost are 2 %. The tax rate is 50 %. Compute the after-tax cost of debt.

(8 × 2 = 16 marks)

**Part C**

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

Each question carries 4 marks :

- 21 Discuss the various steps involved in capital budgeting process.
- 22 List out the importance of financial management.
- 23 List out the advantages and limitations of payback period method.

- 24 List out any *four* factors that determine cost of capital.
- 25 A firm expects a sale of 90,000 units, which it purchased for Rs. 3 per unit. The order cost is Rs. 300 and the firm's carrying cost is Rs. 6 per unit. What is the Economic Order Quantity ?
- 26 XYZ Limited earns Rs. 5 per share, is capitalized at a rate of 10 % and has a rate of return on investments of 18 %. According the Walter's Formula, what should be the price per share at 25 % dividend pay-out ratio ?
27. A company issues 10,000, 10 % preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued (a) At par ; (b) At a premium of 10 % ; and (c) at a discount of 5 %.
- 28 Sun Ltd. Provides the following information :

|                                      |     | Rs.      |
|--------------------------------------|-----|----------|
| Cash sales during the year           | ... | 3,00,000 |
| Credit sales during the year         | ... | 5,40,000 |
| Returns inward                       | ... | 40,000   |
| Trade debtors in the beginning       | ... | 1,10,000 |
| Trade debtors at the end             | ... | 90,000   |
| Provision for bad and doubtful debts | ... | 10,000   |

Calculate Debtor's Turnover Ratio and Average Collection Period.

(6 × 4 = 24 marks)

#### Part D

- IV. Essay Questions. Answer any *two* questions in 600 to 800 words each. Each question carries 15 marks :
- 29 What do you mean by working capital ? Explain various sources of working capital.
- 30 What is factoring ? Explain the various types of factoring. What are its advantages and limitations ?

**Turn over**

31. The following information is available in respect of a product :

|                            |              |
|----------------------------|--------------|
| (a) Units sold             | 60,000       |
| (b) Selling price per unit | Rs. 12       |
| (c) Fixed cost             | Rs. 60,000   |
| (d) Variable cost per unit | Rs. 6        |
| (e) 10 % debt capital      | Rs. 1,20,000 |

Calculate all types of leverages.

(2 × 15 = 30 marks)

**FOURTH SEMESTER (CUCBCSS-UG) DEGREE EXAMINATION, APRIL 2021**

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 up the blanks :

- 1 Capital budgeting is a part of \_\_\_\_\_ decision.
- 2 Operating leverage helps in analysis of \_\_\_\_\_ risk.
- 3 Trading on equity is known as \_\_\_\_\_.
- 4 EPS stands for \_\_\_\_\_.
- 5 JIT stands for \_\_\_\_\_.

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

- 6 According to traditional approach, wealth maximization is the main objective of financial management.
- 7 Arbitrage process refers to buying a security which has low risk and selling it in a high-risk market.
- 8 There should be a balance between different types of ownership and creditorship securities.
- 9 Debit period is the length of time for which the firm grants credit.
- 10 Share capital is a short-term source of finance.

(10 × 1 = 10 marks)

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

- 11 What do you mean by capital budgeting ?
- 12 What is dividend ?
- 13 Define Financial Management.
- 14 What is operating cycle ?

**Turn over**

- 15 What do you mean by payback period ?
- 16 A project cost Rs. 1,00,000 and yields an annual cash inflow of Rs. 20,000 for 8 years, calculate payback period.
- 17 What is time value of money ?
- 18 R Ltd issued 4,00,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 50%. Compute the after-tax cost of debt.
- 19 What is ABC analysis ?
- 20 A firm's cost of equity ( $K_e$ ) is 14%, the average income tax rate of shareholders is 20% and brokerage cost of 3% is expected to be incurred while investing their dividends in alternative securities. Compute 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 or 200 words :

- 21 Explain the various motives for holding cash.
- 22 List down the limitations of MM theory or MM model of capital structure.
- 23 Distinguish between NPV method and IRR method.
- 24 What do you mean by capital structure ? Explain the various factors which determine optimum capital structure of a firm.
- 25 The initial cash outlay of a project is Rs. 1,00,000 and it generates cash inflows of Rs. 40,000, Rs. 30,000, Rs. 50,000 and Rs. 20,000 in the first four years. Calculate profitability index :

| Years | Discount factor at 10% |
|-------|------------------------|
| 1     | 0.909                  |
| 2     | 0.826                  |
| 3     | 0.751                  |
| 4     | 0.683                  |

- 26 A company has sales of Rs. 5,00,000, variable costs Rs. 3,00,000, fixed costs Rs. 1,00,000 and long term loans of Rs. 4,00,000 at 10% rate of interest. Calculate composite leverage.

27 From the following information, calculate average collection period.

|                                | Rs.     |
|--------------------------------|---------|
| Total sales                    | 100,000 |
| Cash sales                     | 20,000  |
| Sales return                   | 7,000   |
| Debtors at the end of the year | 11,000  |
| Bills Receivable               | 4,000   |
| Creditors                      | 15,000  |

28 A company's expected annual net operating income is Rs. 1,00,000 and it has Rs. 3,00,000, 8% debentures. The equity capitalisation rate is 10%.

Calculate the value of the firm and overall capitalisation rate. Also find out the impact on the value of the firm and overall capitalisation rate by increasing the debt component to Rs. 4,00,000 and decrease in debt Rs. 2,00,000.

(6 × 4 = 24 marks)

#### Part D

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

- 29 Explain various functions of financial management.
- 30 What are the various methods of capital budgeting or methods used for evaluation of investment or project proposals ?
- 31 A company's capital structure consists of the following :

|                          | Rs.      |
|--------------------------|----------|
| Equity Share of 100 each | 20 Lakhs |
| Retained Earnings        | 10 Lakhs |
| 9% Preference Shares     | 12 Lakhs |
| 7% Debentures            | 8 Lakhs  |
| Total                    | 50 Lakhs |

Turn over

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs. 25 lakhs to finance its expansion program for which the following alternatives are available to it :

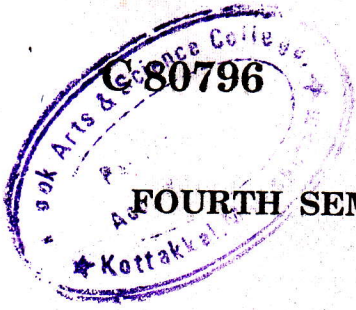
- (i) Issue of 20,000 equity shares at a premium of Rs. 25 per share.
- (ii) Issue of 10% preference shares.
- (iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debentures financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why?

(2 × 15 = 30 marks)

| Particulars               | Rs.       |
|---------------------------|-----------|
| Equity Shares of 100 each | 20,00,000 |
| 10% Preference Shares     | 10,00,000 |
| 8% Debentures             | 25,00,000 |
| Total                     | 55,00,000 |



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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, 2<sup>nd</sup> Year Rs. 1,00,000, 3<sup>rd</sup> Year Rs. 1,50,000, 4<sup>th</sup> and 5<sup>th</sup> 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 :

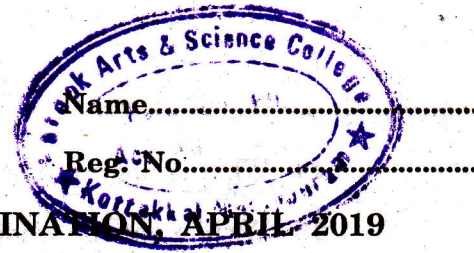
|                             | Cash flows | Present value factor @16% |
|-----------------------------|------------|---------------------------|
| Original cost               | 25,565     |                           |
| Profit after tax : Year : 1 | 687        | 0.862                     |
| 2                           | 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)

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**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)

**FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, APRIL 2018****(CUCBCSS—UG)****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 The policy concerning quantum of profits to be distributed as dividend is termed as \_\_\_\_\_.
- 2 The rate of dividend of preference share is decided at the time of \_\_\_\_\_.
- 3 Net working capital = Current asset minus \_\_\_\_\_.
- 4 Working capital is the difference between current asset and \_\_\_\_\_.
- 5 It is risky to have both operating leverage and \_\_\_\_\_ leverage at a high level.

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

- 6 Net working capital is that portion of a firm's current assets which is financed by long term funds.
- 7 Capital budgeting decisions are long term decisions.
- 8 High breakeven point would indicate a high operating leverage.
- 9 Traditionally the role of finance manager was restricted to acquisition and efficient allocation of funds.
- 10 Investment decisions and capital budgeting are same.

**(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 financial management.
- 12 Explain composite leverage.
- 13 What do you meant by operating cycle ?

**Turn over**

- 14 What is cost of capital ?
- 15 Describe in brief the aims of finance function.
- 16 X Ltd. issued 1,00,000, 9% debentures of Rs. 20 each. Calculate cost of debt capital if the issue is at a premium of 10%. Ignore tax.
- 17 Y Ltd. has issued 10,000 equity shares of Rs.100 each and 7,000, 10% debentures of Rs. 100 each. The operating profit of the Company during the year is Rs. 6,00,000. Compute financial leverage.
- 18 B Ltd. gives the following details. Compute operating, financial and combined leverage. Sales of Rs. 80,00,000 ; Variable cost of Rs. 50,00,000 ; Fixed cost of Rs. 12,00,000 ; 10% debt of Rs. 60,00,000 and Equity capital of Rs. 90,00,000.
- 19 The cost of equity of a Company has been worked out as 22%. 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. 20,00,000, variable cost of Rs. 14,00,000, and fixed cost of Rs. 4,00,000 and debt of Rs. 10,00,000 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 Describe the need and determinants of working capital in a business.
- 22 What do you understand by the pay-back period method ?
- 23 Describe the aims of finance function.
- 24 Why are capital budgeting decisions more important ?
- 25 B Ltd. issues 2000 equity shares of Rs. 100 each at a premium of 12%. The Company has been paying 22% dividend to equity share holders 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. 30,000 as initial investment and it will generate an annual cash flow of Rs. 6,000 for ten years. Calculate the payback period.

- 27 X Ltd wants to raise an amount of Rs. 20,00,000 as a part of an expansion plan. The Company collects Rs. 10,00,000 by issuing equity shares and Rs. 10,00,000 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. 3,00,000. It expects a return on its investment at a rate of 12.5 %. 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 Southern Enterprises is an all equity firm and furnishes the following information :
- Expected EBIT Rs. 1,00,000.
- 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. 7,50,000.
- Find out :
- (a) Value of the firm.
  - (b) Value of equity.
  - (c) Leveraged cost of equity.
- 30 Critically examine the various methods of capital expenditure proposals. Discuss their advantages and limitations.
- 31 What do you understand by capital budgeting ? Why is capital budgeting important to management ?

(2 × 15 = 30 marks)

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(Pages : 4)

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**FOURTH SEMESTER B.B.A. DEGREE (SUPPLEMENTARY) EXAMINATION  
APRIL 2017**

(UG-CCSS)

Core Course

**BB IVB 06—FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum : 30 Weightage

*Answer all twelve questions.*

**I. Objective Type Questions :**

Choose the correct answer :

**1** Ageing schedule incorporates the relationship between :

- (a) Creditors and Days Outstanding.
- (b) Debtors and Days Outstanding.
- (c) Average Age of Directors.
- (d) Average Age of All Employees.

**2** EOQ is the quantity that minimizes :

- (a) Total Ordering Cost.
- (b) Total Inventory Cost.
- (c) Total Interest Cost.
- (d) Safety Stock Level.

**3** Cost of capital may be defined as :

- (a) Weighted Average cost of all debts.
- (b) Rate of Return expected by Equity Shareholders.
- (c) Average IRR of the Projects of the firm.
- (d) Minimum Rate of Return that the firm should earn.

**Turn over**

4 Dividend irrelevance argument of MM Model is based on :

- (a) Issue of Debentures.
- (b) Issue of Bonus Share.
- (c) Arbitrage.
- (d) Hedging.

Fill in the blanks :

- 5 Issue of shares by a company to the existing shareholders free of cost is called \_\_\_\_\_.
- 6 WACC stands for \_\_\_\_\_.
- 7 The formula for calculating Operating leverage is \_\_\_\_\_.
- 8 Inventory Turnover measures the relationship of inventory with \_\_\_\_\_.

Match the following :—

- | A                  | B                     |
|--------------------|-----------------------|
| 9 Miller-Orr Model | — Current asset.      |
| 10 ABC analysis    | — Financial leverage. |
| 11 Debt capital    | — Inventory levels.   |
| 12 Book debts      | — Cash management.    |

(12 × ¼ = 3 weightage)

II. Short answer questions. Answer all *nine* questions :

- 13 What is arbitrage process ?
- 14 What is weighted average cost of capital ?
- 15 Give the meaning of trading on equity ?
- 16 What is NPV ?
- 17 How would you calculate cost of preference shares ?
- 18 What is meant by working capital cycle ?
- 19 What is operating leverage ?
- 20 What is Capital gearing ?
- 21 What is wealth maximization ?

(9 × 1 = 9 weightage)

III. Short essay or paragraph questions. Answer any *five* questions from seven :

- 22 Explain the factors to be considered for determining working capital requirements of a firm.
- 23 A limited company has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each and Rs. 3,00,000 in 10 % debentures. The company's existing earnings before interest and taxes (EBIT) is Rs. 1,50,000. The corporate dividend tax is 50 %.

You are required to calculate earnings per share (EPS) and the impact of degree of financial leverage.

- 24 Excel Industries Ltd. has assets of Rs. 1,60,000 which have been financed with Rs. 52,000 of debt and Rs. 90,000 of equity and a general reserve of Rs. 18,000. The firms total profits after interest and taxes for the year ended was Rs. 13,500. It pays 18 % interest on borrowed funds and is in the 50 % tax bracket. The company has 900 equity shares of Rs. 100 each selling at a market price of Rs. 120 per share. Calculate the weighted average cost of capital.
- 25 Write a short note on various long term sources of finance for business.
- 26 Explain the objectives of financial management.
- 27 A company is expecting an annual earnings before interest and tax (EBIT) of Rs. 5,00,000. The company in its capital structure has 12 % debentures of Rs. 15,00,000. The cost of equity or capitalization rate is 16 % .You are required to calculate the value of the firm and overall cost of capital according to the Net Income Approach.
- 28 The following information is available for Sun Moon limited :

|  |         |
|--|---------|
| Earnings per share                     | — Rs. 4 |
| Rate of return on investments          | — 18 %  |
| Rate of return required by shareholder | — 15 %  |

What will be the price per share as per Walter's model if the dividend payout ratio is 60 % ?

(5 × 2 = 10 weightage)

IV. Essay questions. Answer any *two* questions from three :

- 29 Joan Limited is engaged in large scale consumer retailing. From the following information, you are required to estimate their working capital requirement.

|  |                |
|--|----------------|
| Projected annual sales                                 | — Rs. 65 lakhs |
| Percentage of net profit on cost of sales              | — 25 %         |
| Average credit period allowed to debtors               | — 10 weeks     |
| Average credit period allowed by creditors             | — 4 weeks      |
| Average stock carrying (in terms of sales requirement) | — 8 weeks      |

Add 10 % of computed figures to allow for contingencies.

**Turn over**

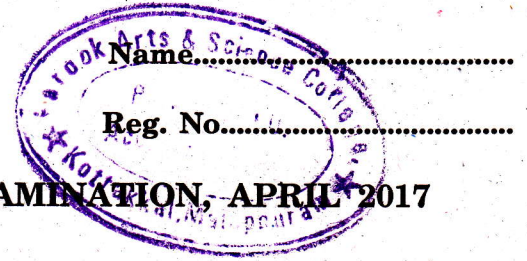
- 30 Heroine Limited wants to purchase a machine. Two machines A and B are available in the market. The cost of each machine is Rs. 4,00,000. The expected lives of these machine are 5 years.net profit before tax during the expected lives of the machine are given below :

| <i>Year</i>  | <i>Machine A</i> | <i>Machine B</i> |
|--------------|------------------|------------------|
| 1            | 40,000           | 28,000           |
| 2            | 60,000           | 52,000           |
| 3            | 52,000           | 60,000           |
| 4            | 80,000           | 1,00,000         |
| 5            | 68,000           | 80,000           |
| <b>Total</b> | <b>3,00,000</b>  | <b>3,20,000</b>  |

The average rate of tax is 50 %, calculate which machine is more profitable.

- 31 What do you understand by capital structure ? What are the considerations to be kept in view while designing the capital structure of a company ?

(2 × 4 = 8 weightage)

**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

| <i>Particulars</i>                      | <i>Rs.</i> |
|---|------------|
| 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<br>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)

**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.

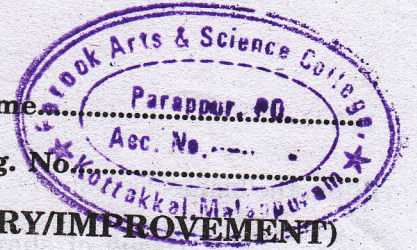
(2 × 15 = 30 marks)

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(Pages : 4)

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Reg. No.....



**FOURTH SEMESTER B.B.A. DEGREE (SUPPLEMENTARY/IMPROVEMENT)  
EXAMINATION, MAY 2016**

(UG—CCSS)

Core Course

BB IVB 06—FINANCIAL MANAGEMENT

Time : Three Hours

Maximum : 30 Weightage

*Objective type questions.*

*Answer all twelve questions.*

I. Choose the correct answer :

- 1 Ratio of Net Income to Number of Equity Shares is known as :
  - (a) Price Earnings Ratio.
  - (b) Net Profit Ratio.
  - (c) Earnings per Share.
  - (d) Dividend per Share.
- 2 In capital budgeting, the term Capital Rationing implies :
  - (a) That no retained earnings available.
  - (b) That limited funds are available for investment.
  - (c) That no external funds can be raised.
  - (d) That no fresh investment is required in current year.
- 3 Debt Financing is a cheaper source of finance because of :
  - (a) Time Value of Money.
  - (b) Rate of Interest.
  - (c) Tax-deductibility of Interest.
  - (d) Dividends not Payable to lenders.
- 4 Dividend irrelevance argument of MM Model is based on :
  - (a) Issue of Debentures.
  - (b) Issue of Bonus Share.
  - (c) Arbitrage.
  - (d) Hedging.

Turn over

Fill in the blanks :

- 5 Issue of shares by a company to the existing shareholders for a consideration is called \_\_\_\_\_.
- 6 WACC stands for \_\_\_\_\_.
- 7 The formulae for calculating Financial leverage is \_\_\_\_\_.
- 8 Working Capital Turnover measures the relationship of Working Capital with \_\_\_\_\_.

Match the following :-

- |                       |   |                             |
|-----------------------|---|-----------------------------|
| 9 Net income approach | - | Capital asset.              |
| 10 Ageing schedule    | - | Trading on equity.          |
| 11 Debt capital       | - | Capital structure decision. |
| 12 Machinery          | - | Receivables management.     |

(12 × ¼ = 3 weightage)

II. Short answer questions. Answer all *nine* questions :

- 13 What is wealth maximization ?
- 14 What is debtors turnover ratio ?
- 15 What is cost of debt ?
- 16 What is trading on equity ?
- 17 What is EBIT ?
- 18 How would you calculate cost of preference shares ?
- 19 Name any *two* theories of dividend policy.
- 20 What is Earnings per share ?
- 21 What is Capital gearing ?

(9 × 1 = 9 weightage)

III. Short essay or paragraph questions. Answer any *five* questions from seven :

- 22 Explain the importance of different types of leverages.
- 23 The capital structure of a ABC limited consists of equity share capital of Rs. 1,00,000 (10,000 shares of Rs.10 each) and 8% debentures of Rs.50,000. You are required to calculate and verify the degree of financial leverages on earnings before interest and tax (EBIT) at a level of Rs.20,000.

- 24 The share of a company is selling at Rs.40 per share and it had paid a dividend of Rs.4 per share last year. The investors market expects a growth rate of 5% per year. Compute the company's cost of equity capital.
- 25 What is MM approach of capital structure ? Give its salient features.
- 26 Explain the factors determining working capital requirements of a firm.
- 27 Calculate Debtors turnover ratio and Average collection period from the following :

|                                      | Rs.        |
|--------------------------------------|------------|
| Cash sales during the year           | – 1,50,000 |
| Credit sales during the year         | – 2,70,000 |
| Return inward                        | – 20,000   |
| Trade debtors in the beginning       | – 55,000   |
| Trade debtors at the end             | – 45,000   |
| Provision for bad and doubtful debts | – 5,000    |

Take 360 days in a year and all returns are from credit sales.

- 28 A company's total investment in assets is Rs. 10,00,000. It has 1,00,000 shares of Rs.100 each. Its expected rate of return on investment is 30% and the cost of capital is 18%. The Company has a policy of retaining 25% of its profits. Determine the value of the firm using Gordon's model.

(5 × 2 = 10 weightage)

IV. Essay questions. Answer any *two* questions from three :

- 29 Jiya limited is engaged in large scale consumer retailing. From the following information, you are required to estimate their working capital requirement :

|  |               |
|--|---------------|
| Projected annual sales                                 | – Rs.35 lakhs |
| Percentage of net profit on cost of sales              | – 25%         |
| Average credit period allowed to debtors               | – 8 weeks     |
| Average credit period allowed by creditors             | – 3 weeks     |
| Average stock carrying (in terms of sales requirement) | – 6 weeks     |

Add 10% of computed figures to allow for contingencies.

**Turn over**

- 30 One of the three projects of the company is doing poorly and is being considered for replacement. The projects (A, B and C) are expected to require Rs. 2,00,000 each and have an estimated life of 5 years, 4 years and 3 years respectively. They have no salvage values. The required rate of return is 10%. The anticipated cash flows after taxes (CFAT) for the three projects are as follows :

| CFAT (Rs.) |          |        |          |
|------------|----------|--------|----------|
| Year       | A        | B      | C        |
| 1          | 50,000   | 80,000 | 1,00,000 |
| 2          | 50,000   | 80,000 | 1,00,000 |
| 3          | 50,000   | 30,000 | 10,000   |
| 4          | 50,000   | 30,000 | —        |
| 5          | 1,90,000 | —      | —        |

Rank each project applying the method of payback period and post-pay back profitability.

31. What are the objectives of Financial Management ? Should the goal of financial decision making be profit maximization or wealth maximization ? Discuss.

(2 × 4 = 8 weightage)

C3940

(Pages : 4)

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**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 :

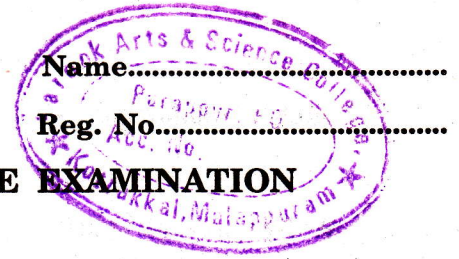
| Year | Cash flows | Present value of Re. 1 at 10 % |
|------|------------|--------------------------------|
| 1    | Rs. 9,000  | 0.909                          |
| 2    | Rs. 8,000  | 0.826                          |
| 3    | Rs. 7,000  | 0.751                          |
| 4    | Rs. 6,000  | 0.683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

1798

(Pages : 4)



**FOURTH SEMESTER B.B.A. DEGREE EXAMINATION  
APRIL/MAY 2015**

(UG-CCSS)

Core Course

**BB IVB 06—FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum : 30 Weightage

Objective type questions. Answer all *twelve* questions :

I. Choose the correct answer :

- 1 Ratio of Net Income to Number of Equity Shares is known as :
  - (a) Price Earnings Ratio.
  - (b) Net Profit Ratio.
  - (c) Earnings per Share.
  - (d) Dividend per Share.
- 2 Which of the following is not a capital budgeting decision ?
  - (a) Expansion Programme.
  - (b) Merger.
  - (c) Replacement of an Asset.
  - (d) Inventory Level.
- 3 ABC Analysis is used in :
  - (a) Inventory Management.
  - (b) Receivables Management.
  - (c) Accounting Policies.
  - (d) Corporate Governance.
- 4 Dividend irrelevance argument of MM Model is based on :
  - (a) Issue of Debentures.
  - (b) Issue of Bonus Share.
  - (c) Arbitrage.
  - (d) Hedging.

Fill in the blanks :

- 5 The capital budgeting method that ignores profitability and the time value of money is \_\_\_\_\_.
- 6 EBIT stands for \_\_\_\_\_.
- 7 The formulae for calculating Financial leverage is \_\_\_\_\_.
- 8 Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as \_\_\_\_\_.

Turn over

Match the following :—

| A                   | B                         |
|---------------------|---------------------------|
| 9 Net present value | — Capital asset.          |
| 10 Ageing schedule  | — Trading on equity.      |
| 11 Leverage         | — Receivables management. |
| 12 Machinery        | — Time value of money.    |

(12 × ¼ = 3 weightage)

II. Short answer questions. Answer all *nine* questions :

- 13 What is Financial plan ?
- 14 How will you calculate dividend payout ratio ?
- 15 What is Marginal cost of capital ?
- 16 What is trading on equity ?
- 17 What is Factoring ? ✓
- 18 How would you calculate cost of preference shares ? ✓
- 19 What is meant by scrip dividend ?
- 20 What is the formula for calculating Minimum stock level ? ✓
- 21 What is Capital gearing ?

(9 × 1 = 9 weightage)

III. Short essay or paragraph questions. Answer any *five* questions from seven :

- 22 Explain briefly the various sources of working capital for a business.
- 23 The capital structure of a ABC limited consists of equity share capital of Rs.2,00,000 (20,000 shares of Rs.10 each) and 8% debentures of Rs.1,00,000. You are required to calculate and verify the degree of financial leverages on earnings before interest and tax (EBIT) at a level of Rs. 40,000.
- 24 A company issues Rs. 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amounts to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before tax and after tax cost of debt assuming a tax rate of 50%.
- 25 What is MM approach of capital structure ? Give its salient features ?

26 Discuss the meaning and scope of financial management.

27 Following information is given about materials :

|   |   |                         |
|---|---|-------------------------|
| Annual usage                            | — | Rs. 2,00,000.           |
| Cost of placing and receiving one order | — | Rs. 80.                 |
| Annual carrying cost                    | — | 10% of inventory value. |

Find out Economic Order Quantity.

28 There are two firms X and Y which are exactly identical except that X does not use any debt in its financing. Company Y has Rs. 20,00,000 8% debentures outstanding. Both its firms have EBIT of Rs. 6,00,000 and equity capitalization rate is 10%. Assuming the corporate tax rate as 50%, calculate the value of the firm using MM approach.

(5 × 2 =10 weightage)

IV. Essay questions. Answer any *two* questions from three :

29 Hi-Tech Ltd. plans to sell 30,000 units next year. The expected cost of goods sold is as follows :

|  | (Per Unit) |
|--|------------|
| Raw material                                   | — 100      |
| Manufacturing expenses                         | — 30       |
| Selling, administration and financial expenses | — 20       |
| Selling price                                  | — 200      |

The duration at various stages of the operating cycle is expected to be as follows :

|                        |   |          |
|------------------------|---|----------|
| Raw material stage     | — | 2 months |
| Work-in-progress stage | — | 1 month  |
| Finished stage         | — | ½ month  |
| Debtor's stage         | — | 1 month  |

Assuming the monthly sales level of 2,500 units, estimate the gross working capital requirement. Desired cash balance is 5% of the gross working capital requirement, and working progress is 25% complete with respect to manufacturing expenses.

Turn over

- 30 The director of capital budgeting of a company has asked you to analyze two proposed capital investment projects on the basis of pay-back and post-payback-period methods. Each project has a cost of Rs.10,000.

The pattern of cash inflows is as follows :

| Year | Project X (Rs.) | Project Y (Rs.) |
|------|-----------------|-----------------|
| I    | 6,500           | 3,500           |
| II   | 3,000           | 3,500           |
| III  | 3,000           | 3,500           |
| IV   | 1,000           | 3,500           |
| V    | 1,000           | 3,500           |

Advise as to which project should be selected and why ?

- 31 Discuss in detail the techniques of capital budgeting with the help of examples.

(2 × 4 = 8 weightage)

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(Pages : 3)

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**FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, MAY 2014**

(UG—CCSS)

Core Course

**BB IV B06—FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum : 30 Weightage

**Part A**

*Answer all questions.*

*Each bunch carries a weightage of 1.*

- I. 1 Difference between present value of cash inflow and initial cash outlay is called \_\_\_\_\_.
- (a) NPV. (b) IRR.  
(c) ROI. (d) ARR.
- 2 \_\_\_\_\_ are cash outflows that have already been made and no effect on cash flow relevant to a current decision.
- (a) Marginal cost. (b) Opportunity cost.  
(c) Notional expense. (d) Sunk cost.
- 3 The choice of investment proposals under financial constraints of capital expenditure budget is called :
- (a) Capital budgeting. (b) Capital structure.  
(c) Capital rationing. (d) None of these.
- 4 Which of the following is not an assumption of MM approach to capital structure theory :
- (a) Imperfect market. (b) No tax.  
(c) Perfect information. (d) 100 % pay out ratio.
- II. 5 Among all long term sources of finance, equity capital carries \_\_\_\_\_ cost.
- (a) Minimum. (b) Moderate.  
(c) Normal. (d) Maximum.
- 6 Bank overdraft is a \_\_\_\_\_ source of capital.
- (a) Internal. (b) Short term.  
(c) Long term. (d) Medium term.
- 7 \_\_\_\_\_ strategy involves matching of asset and liability maturity.
- (a) Hedging approach. (b) Conservative approach.  
(c) Matching approach. (d) Both (a) and (c).

Turn over

- 8 \_\_\_\_\_ risk measures the variability in operating profits due to changes in sales.
- (a) Financial. (b) Business.  
(c) Systematic. (d) Unsystematic.
- III. 9 \_\_\_\_\_ determine the number of years required to recover the initial investment outlay.
- 10 Debenture is a \_\_\_\_\_ instrument.
- 11 EBIT stands for \_\_\_\_\_.
- 12 \_\_\_\_\_ refers to the corporate net profit divided among shareholders.

(12 × ¼ = 3 weightage)

### Part B

*Answer all questions.*

*Each question carries a weightage of 1.*

- 13 What is specific cost of capital ?
- 14 What is cost of equity share capital ?
- 15 What is indifferent point ?
- 16 What are bonus shares ?
- 17 Define optimum capital structure.
- 18 What is uncertainty ?
- 19 What is discounted cash flow ?
- 20 What is financial leverage ?
- 21 Write down any two assumptions of MM approach to capital structure theory.

(9 × 1 = 9 weightage)

### Part C

*Answer any five questions.*

*Each question carries a weightage of 2.*

- 22 A company has 10 per cent perpetual debt of Rs. 1,00,000. The tax rate is 35 per cent. Determine the cost of capital, before tax as well as after tax, assuming the debt is issued at (a) per ; (b) 10 per cent discount.
- 23 Explain the scope of financial management.
- 24 Discuss the importance of capital budgeting decision.
- 25 In what respect the objective of wealth maximisation is superior to profit maximisation ?
- 26 What are the significance of cost of capital ?
- 27 Explain constant dividend rate policy.
- 28 What are the merits and demerits of pay back method ?

(5 × 2 = 10 weightage)

**Part D***Answer any two questions.**Each question carries a weightage of 4.*

- 29 Discuss various theories of capital structure.
- 30 ABC Co. Ltd. Proposes to purchase a new machine to increase its present level of production. The details are given below :

Initial outlay : Rs. 80,000

Estimated life : 5 years

Net cash flow after tax :

| Year  |     | Net cash flow   |
|-------|-----|-----------------|
| 1     | ... | 22,000          |
| 2     | ... | 30,000          |
| 3     | ... | 40,000          |
| 4     | ... | 32,000          |
| 5     | ... | 16,000          |
| Total | ... | <u>1,40,000</u> |

- Calculate internal rate of return. Assume the minimum rate of return expected is 15 %.
- 31 Explain various factors influencing dividend policy of a joint stock company.

(2 × 4 = 8 weightage)