IV Semester B.B.M. Examination, May/June 2018  
(2013-14 and Onwards) (Repeaters)  
Business Management  
Paper – 4.4 : FINANCIAL MANAGEMENT

Time : 3 Hours  Max. Marks : 100

Instruction : Answers should be written only in English.

SECTION – A

1. Answer any eight sub-questions. Each question carries 2 marks.  (8x2=16)
   a) What is business finance?
   b) Mention any two finance functions.
   c) Write the meaning of time value of money.
   d) What is future value?
   e) List two demerits of payback period method of capital budgeting.
   f) What is profitability index?
   g) State two factors influencing dividend decision.
   h) Mention the components of current assets.
   i) State any two forms of dividend.
   j) Calculate payback period if annual cash flow is Rs. 40,000, cost of investment is Rs. 1,00,000.

SECTION – B

Answer any three questions. Each question carries 8 marks.  (3x8=24)

2. Briefly explain the process involved in capital budgeting.

3. Calculate the average rate of return for a project which requires an initial outlay of Rs. 20,000 and generates year ending profit after depreciation and tax of Rs. 12,000, Rs. 6,000, Rs. 5,000, Rs. 5,000 and Rs. 3,000 from the end of first years to the end of fifth year.

P.T.O.
4. Calculate all the leverages from the following data:
   Sales 2,00,000 units Rs. 50 per unit
   Variable cost per unit Rs. 18
   Fixed cost Rs. 25,00,000
   Interest charges Rs. 2,00,000

5. It is proposed to start a business requiring a capital of Rs. 10 lakhs and expected return is 15%. Calculate EPS if it is financed by way of 40% equity and 60% debt (10% interest).

SECTION - C

Answer question no. 10 compulsory and any three of the remaining questions. Each question carries 15 marks. (4x15=60)

6. What is financial planning? Explain the steps involved in financial planning.

7. What are various types of working capital? Explain.

8. Explain the types and forms of dividend.

9. A firm’s cost of capital is 10%. It is considering two mutually exclusive projects X and Y. The details are given below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>1</td>
<td>10,000</td>
<td>60,000</td>
</tr>
<tr>
<td>2</td>
<td>30,000</td>
<td>40,000</td>
</tr>
<tr>
<td>3</td>
<td>30,000</td>
<td>20,000</td>
</tr>
<tr>
<td>4</td>
<td>45,000</td>
<td>20,000</td>
</tr>
<tr>
<td>5</td>
<td>60,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

   Compute payback period.

10. ABC Ltd. is expecting the EBIT of Rs. 1,50,000 per annum on an investment of Rs. 5,00,000. The company has access to raise funds of varying amounts by issuing equity share capital, 12% preference share and 10% debenture or any combination thereof. The company has the following options to raise the required funds of Rs. 5,00,000.
   1) By issuing equity share capital at par.
   2) 50% funds by equity share capital and 50% funds by preference shares.
   3) 50% funds by equity share capital and 50% funds by debentures.

Assuming that ABC Ltd. belongs to 50% tax bracket, calculate EPS under the above three options.
IV Semester B.B.M. Examination, May/June 2018  
(2013-14 and Onwards) (Repeaters)  
Business Management  
Paper – 4.4 : FINANCIAL MANAGEMENT

Time : 3 Hours  
Max. Marks : 100

**Instruction** : Answers should be written only in **English**.

**SECTION – A**

1. Answer any eight sub-questions. Each question carries 2 marks.  
   (8×2=16)
   a) What is business finance ?  
   b) Mention any two finance functions.  
   c) Write the meaning of time value of money.  
   d) What is future value ?  
   e) List two demerits of payback period method of capital budgeting.  
   f) What is profitability index ?  
   g) State two factors influencing dividend decision.  
   h) Mention the components of current assets.  
   i) State any two forms of dividend.  
   j) Calculate payback period if annual cash flow is Rs. 40,000, cost of investment is Rs. 1,00,000.

**SECTION – B**

Answer any three questions. Each question carries 8 marks.  
(3×8=24)

2. Briefly explain the process involved in capital budgeting.

3. Calculate the average rate of return for a project which requires an initial outlay of Rs. 20,000 and generates year ending profit after depreciation and tax of Rs. 12,000, Rs. 6,000, Rs. 5,000, Rs. 5,000 and Rs. 3,000 from the end of first years to the end of fifth year.
4. Calculate all the leverages from the following data:
   Sales 2,00,000 units Rs. 50 per unit
   Variable cost per unit Rs. 18
   Fixed cost Rs. 25,00,000
   Interest charges Rs. 2,00,000

5. It is proposed to start a business requiring a capital of Rs. 10 lakhs and expected return is 15%. Calculate EPS if it is financed by way of 40% equity and 60% debt (10% interest).

SECTION – C

Answer question no. 10 compulsory and any three of the remaining questions. Each question carries 15 marks. (4×15=60)

6. What is financial planning? Explain the steps involved in financial planning.

7. What are various types of working capital? Explain.

8. Explain the types and forms of dividend.

9. A firm's cost of capital is 10%. It is considering two mutually exclusive projects X and Y. The details are given below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td></td>
<td>10,000</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>45,000</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Compute payback period.

10. ABC Ltd. is expecting the EBIT of Rs. 1,50,000 per annum on an investment Rs. 5,00,000. The company has access to raise funds of varying amounts by issuing equity share capital, 12% preference share and 10% debenture or any combination thereof. The company has the following options to raise the required funds of Rs. 5,00,000.
   1) By issuing equity share capital at par.
   2) 50% funds by equity share capital and 50% funds by preference shares.
   3) 50% funds by equity share capital and 50% funds by debentures.

Assuming that ABC Ltd. belongs to 50% tax bracket, calculate EPS under the above three options.
IV Semester B.B.A. Examination, May/June 2018
(CBCS) (F + R) (2015-16 and Onwards)
BUSINESS ADMINISTRATION
Paper – 4.4 : Financial Management

Time : 3 Hours
Max. Marks : 70

Instruction : Answer should be completely written in English only.

SECTION – A

1. Answer any five sub-questions of the following. Each sub-question carries two marks : (5x2=10)
   a) What is meant by Business Finance ?
   b) Give the meaning of financial planning.
   c) What is meant by discounting technique ?
   d) What is meant by deleveraging ?
   e) Cost of plant is ₹ 2,00,000 and cash flows for the first 3 years are ₹ 60,000, ₹ 90,000 and ₹ 1,00,000. Express the PBP in terms of years.
   f) What is meant by Scrip dividend ?
   g) Mention any two objects of inventory management.

SECTION – B

Answer any three questions of the following. Each question carries six marks : (3x6=18)

2. Compare profit maximization with wealth maximization, how wealth maximization is superior to profit maximization.

3. Find the sum of money required to acquire a property for 10 years yielding annual return of ₹ 15,000 at the end of the year, if the interest rate is 10% p.a. compounded annually by using the present value of immediate annuity formula.

   \[ PVI_{\text{An}} = \frac{A}{i} \left[ 1 - \frac{1}{(1+i)^n} \right]. \]
4. A firm has sales of ₹ 20,00,000, variable cost of ₹ 14,00,000, fixed cost of ₹ 4,00,000 and debt of ₹ 10,00,000 at 10% interest. Calculate operating, financial and combined leverage.

5. A company is requiring a machine which requires an investment of ₹ 1,60,000. The net income before tax and depreciation is estimated as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIBTD (₹)</td>
<td>56,000</td>
<td>48,000</td>
<td>30,000</td>
<td>64,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>

Depreciation is to be charged on straight line basis. Tax rate is 30%. Calculate ARR.

6. What is meant by cash dividend and stock dividend? State the differences between both the forms of dividend.

SECTION – C

Answer any three of the following questions. Each question carries 14 marks: (3x14=42)

7. Explain in detail the organization structure of a finance department.

8. Hero Limited and Honda Limited are identical except that former is not levered while the latter is levered. The particulars are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Sun Ltd. (₹)</th>
<th>Moon Ltd. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital (₹ 10 each)</td>
<td>10,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>8% debt capital</td>
<td></td>
<td>5,00,000</td>
</tr>
<tr>
<td>Assets</td>
<td>10,00,000</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Return on assets</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Calculate the EPS assuming the tax rate of 30% and would it be advantageous to the Moon Ltd. to raise the level of debt to 70%?
9. VASTU Ltd. is considering an investment decision to install a new machine. The project will cost ₹ 5,00,000/- with a life of 5 years and no salvage value. The company’s tax rate is 50%.

The estimated income before depreciation and taxes is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBDT (₹)</td>
<td>1,00,000</td>
<td>1,10,000</td>
<td>1,40,000</td>
<td>1,50,000</td>
<td>2,50,000</td>
</tr>
</tbody>
</table>

Compute the following:

a) Payback period

b) NPV @ 10% discount rate

c) Profitability index.

Following are the PV factors of ₹ 1 @ 10% p.a. for the years 1 to 5.

1) 0.909
2) 0.826
3) 0.751
4) 0.683
5) 0.621

10. Explain in details the different factors which affect the dividend policy of the organisation.

11. Explain in detail the different determinants of working capital requirements of a company.
IV Semester B.B.A. Examination, May 2017  
(CBCS) (F+R) (2015-16 and Onwards)  
BUSINESS ADMINISTRATION  
Paper – 4.4 : Financial Management

Time : 3 Hours  
Max. Marks : 70

Instruction : Answers should be completely written in English only.

SECTION – A

1. Answer any five sub-questions of the following. Each sub-question carries two marks. (5x2=10)
   a) What is meant by time value of money ?
   b) How do you calculate EPS ?
   c) What is combined leverage ?
   d) What do you mean by dividend policy ?
   e) Mention any four functions of financial management.
   f) State the techniques of capital budgeting.
   g) What is inventory management ?

SECTION – B

Answer any three of the following. Each question carries six marks. (3x6=18)

2. Briefly explain the prime objectives of financial plan.

3. Distinguish between operating and financial leverage.

4. Mention the salient features of NPV method.

5. Determine the three types of leverages from the following information :
   Selling price per unit  Rs. 10
   Variable cost per unit  Rs. 5
   Fixed cost  Rs. 1,20,000
   10% debt capital  Rs. 3,00,000
   Number of units sold  90,000

6. Mr. Kabir deposits Rs. 2,000 at the end of every 5 years and the deposits earn a compound interest @ 10% p.a. Determine how much money he will have at the end of 5 years ? Given \((1.10)^5 = 6.105\).

P.T.O.
SECTION – C

Answer any three of the following questions. Each question carries 14 marks. (3×14=42)

7. What is dividend policy? Explain the factors which determine the dividend policy.

8. What is working capital? Explain the dangers of excessive working capital and also inadequate working capital.

9. What is capital budgeting? Why is it significant for a firm?

10. A firm’s cost of capital is 10%. It is considering two mutually exclusive projects X and Y. The details are given below:

<table>
<thead>
<tr>
<th>Particular</th>
<th>Project – N</th>
<th>Project – R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>1,50,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Net cash flow years</td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>1</td>
<td>20,000</td>
<td>80,000</td>
</tr>
<tr>
<td>2</td>
<td>40,000</td>
<td>80,000</td>
</tr>
<tr>
<td>3</td>
<td>60,000</td>
<td>40,000</td>
</tr>
<tr>
<td>4</td>
<td>90,000</td>
<td>20,000</td>
</tr>
<tr>
<td>5</td>
<td>1,20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Compute:
A) Payback period.
B) NPV.
P.V. factor at 12% for 5 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.V. Factor @ 12%</td>
<td>0.893</td>
<td>0.797</td>
<td>0.712</td>
<td>0.636</td>
<td>0.567</td>
</tr>
</tbody>
</table>

11. KR Ltd. is capitalized with Rs. 5,00,000 divided into 50,000 equity shares of Rs. 10 each. The management desires to raise another Rs. 5,00,000 to finance some expansion programme.

There are four possible financing plans:

i) All equity shares

ii) Rs. 2,50,000 in equity and the balance in debentures carrying 10% interest.

iii) Rs. 2,50,000 in equity and Rs. 2,50,000 in preference shares carrying 10% dividend.

iv) All debentures carrying 8% interest.

The existing EBIT amounts to Rs. 60,000 p.a.

Calculate EPS in all the above four plans.
IV Semester B.B.M. Examination, May 2017  
(Repeaters) (2013-14 and Onwards)  
BUSINESS MANAGEMENT  
Paper – 4.4 : Financial Management

Time : 3 Hours  
Max. Marks : 100

**Instruction**: Answer should be written **only** in English.

**SECTION – A**

1. Answer any eight sub-questions. Each sub-question carries 2 marks.  
   \[2\times 8=16\]
   a) What is scrip dividend ?  
   b) What is future value ?  
   c) What is profit maximisation ?  
   d) What is trading on equity ?  
   e) What is payback period ?  
   f) What is operating cycle ?  
   g) What is point of difference ?  
   h) What is financial plan ?  
   i) What do you mean by EOQ ?  
   j) A company has irredeemable preference share of Rs. 2,000. He receives an 
      annual dividend of Rs. 80 annually. What will be its value if the required rate 
      of return is 10% ?

**SECTION – B**

Answer any three Questions. Each question carries eight marks.  
\[3\times 8=24\]

2. Briefly explain the factors determining capital structure.

3. Find out the present value of annuity receipt of Rs. 8,000 received for 5 years at 
   the rate of 10% discount rate.
4. A firm has a sales of Rs. 1,00,000, variable cost of Rs. 40,000 and fixed cost Rs. 20,000. A company has a debt of Rs. 1,00,000 @ 10% and equity share capital of Rs. 2,00,000 as its capital structure. Calculate operating, financial and combined leverage.

5. A company plans to purchase a machine requiring an investment of Rs. 2,00,000. The net income before tax and depreciation is estimated as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>60,000</td>
</tr>
<tr>
<td>2</td>
<td>48,000</td>
</tr>
<tr>
<td>3</td>
<td>40,000</td>
</tr>
<tr>
<td>4</td>
<td>72,000</td>
</tr>
<tr>
<td>5</td>
<td>68,000</td>
</tr>
</tbody>
</table>

Depreciation is to be charged on straight line basis. Tax rate 50%. Calculate ARR.

SECTION – C

Answer question no. 10 and any three of the remaining questions. Each question carries 15 marks. (4x15=60)

6. Explain the factors influencing the dividend policy.

7. What is permanent and variable working capital? Explain the dangers of excessive working capital and also inadequate working capital.

8. Explain the capital budgeting process.

9. The following details of XYZ Co. are available:

   Existing equity capital 10,000 shares of Rs. 10 each, proposal to raise Rs. 1,00,000 with following alternatives.
   a) Debt at 10% p.a.
   b) Equity capital at Rs. 10 per share.
   c) Preference shares of Rs. 10 each at 12% dividend.

The company's EBIT is Rs. 80,000, corporate tax rate is 50%. Determine the EPS in each alternative and comment which alternative is best.
10. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y. The details of which are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

Cash flows:

(Net profit after tax before depreciation)

<table>
<thead>
<tr>
<th>Year</th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>10,000</td>
<td>20,000</td>
</tr>
<tr>
<td>II</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>III</td>
<td>30,000</td>
<td>60,000</td>
</tr>
<tr>
<td>IV</td>
<td>45,000</td>
<td>10,000</td>
</tr>
<tr>
<td>V</td>
<td>60,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

1,65,000  1,40,000

Compute the payback period and net present value and suggest which project is to be considered for investment.

PV factor at 10% PA for 1-5 years are 0.909, 0.826, 0.751, 0.683 and 0.621.
IV Semester B.B.A. Examination, May 2016
(CBCS) (Fresh) (2015-16 and Onwards)
BUSINESS ADMINISTRATION
Paper – 4.4 : Financial Management

Time : 3 Hours
Max. Marks : 70

Instruction: Answer should be written in English only.

SECTION – A

Answer any five sub-questions of the following. Each sub-question carries two marks. (5x2=10)

1. a) What is cash dividend?
   b) What is operating leverage?
   c) State any two objectives of financial management.
   d) What is operating cycle?
   e) Give the meaning of finance.
   f) What is optimum capital structure?
   g) What is doubling period?

SECTION – B

Answer any three questions of the following. Each question carries six marks. (3x6=18)

2. What are the advantages of Accounting rate of return method?
3. What are the legal and financial aspects of a dividend policy?
4. Briefly explain the characteristics of a sound financial plan.
5. Compare two companies in terms of operating leverages and financial leverages

<table>
<thead>
<tr>
<th>Firm – A</th>
<th>Firm – B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>₹ 20,00,000</td>
</tr>
<tr>
<td>Variable cost</td>
<td>40% of sales</td>
</tr>
<tr>
<td>Fixed cost</td>
<td>₹ 5,00,000</td>
</tr>
<tr>
<td>Interest</td>
<td>₹ 1,00,000</td>
</tr>
</tbody>
</table>

Interpret the results of the firm.

6. Calculate the future value of ₹ 6,000 for 4 years and the interest on it is compounded at 12% p.a. half yearly. Given \((1.06)^{1/2} = 1.03025\).
SECTION – C

Answer any three questions of the following. Each question carries fourteen marks. (3×14=42)

7. Explain the functions of finance manager.

8. Explain the factors determining working capital.

9. Explain the different forms dividend policy practiced by companies.

10. Vihan company is considering to purchase a machine. Two machines are available X and Y costing ₹ 50,000 each. Earnings after taxation are expected to be as follows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Machine – X</th>
<th>Machine – Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹</td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>1</td>
<td>15,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2</td>
<td>20,000</td>
<td>15,000</td>
</tr>
<tr>
<td>3</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>4</td>
<td>15,000</td>
<td>30,000</td>
</tr>
<tr>
<td>5</td>
<td>10,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Evaluate the two alternatives according to
a) Pay back period method.
b) Net present value method.
Assume cost of capital at 10%. Depreciation is allowed under straight line method.
The discount factor is as under

<table>
<thead>
<tr>
<th>Year</th>
<th>Discount factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.909</td>
</tr>
<tr>
<td>2</td>
<td>0.826</td>
</tr>
<tr>
<td>3</td>
<td>0.751</td>
</tr>
<tr>
<td>4</td>
<td>0.683</td>
</tr>
<tr>
<td>5</td>
<td>0.621</td>
</tr>
</tbody>
</table>

11. Divya Company Ltd., has a capital of ₹ 1,00,000 divided into shares of ₹ 10 each. It has major expansion programme requiring an investment of another ₹ 1,00,000. The management is considering the following alternatives for raising this amount.
   i) Issue of 10,000 shares of ₹ 10 each.
   ii) Issue of 5,000 preference shares of ₹ 10 each at 10% dividend and Balance amount in 10% debentures.
   iii) Issue of 10% debentures of ₹ 1,00,000.

The company’s present EBIT is ₹ 80,000 p.a.
You are required to calculate the effect of each of the above modes of financing on EPS presuming,
a) EBIT continues to be same after expansion.
b) EBIT increases by ₹ 20,000.
c) Assume tax liability is 50%.
IV Semester B.B.M. Examination, May 2016
(2013-14 and Onwards) (Repeaters)
BUSINESS MANAGEMENT
Paper – 4.4 : Financial Management

Time : 3 Hours
Max. Marks : 100

**Instruction**: Answers should be written only in English.

SECTION – A

1. Answer any eight sub-questions. Each sub-question carries 2 marks. (2×8=16)
   
   a) What is financial management?
   
   b) What is scrip dividend?
   
   c) What is a financial plan?
   
   d) What is meant by profit maximisation?
   
   e) Mr. A has a irredeemable preference share of ₹ 1,000. He receives an annual dividend of ₹ 80 annually. What will be its value if the required rate of return is 10%?
   
   f) What is Trading on Equity?
   
   g) What is payback period?
   
   h) What is point of indifference?
   
   i) Mention any two objects of working capital management.
   
   j) What is meant by operating cycle?

SECTION – B

Answer any three questions. Each question carries eight marks. (3×8=24)

2. Briefly explain the principles of a financial plan.

3. Find out the present value of annuity receipt of ₹ 7,000 received for 5 years at the rate of 12% discount rate.

P.T.O.
4. A firm has a sales of ₹75,00,000; variable cost of ₹42,00,000 and a fixed cost of ₹6,00,000. It was a debt of ₹45,00,000 at 9% p.a. and equity of ₹55,00,000.

Calculate the operating, financial and combined leverage of the firm.

5. A company is requiring a machine which requires an investment of ₹1,60,000. The net income before tax and depreciation is estimated as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>56,000</td>
</tr>
<tr>
<td>2</td>
<td>48,000</td>
</tr>
<tr>
<td>3</td>
<td>30,000</td>
</tr>
<tr>
<td>4</td>
<td>64,000</td>
</tr>
<tr>
<td>5</td>
<td>80,000</td>
</tr>
</tbody>
</table>

Depreciation is to be charged on straight line basis. Tax rate is 40%. Calculate Accounting rate of return.

SECTION C

Answer Question No. 10 and any three of the remaining questions. Each question carries 15 marks. (4×15=60)

6. What is permanent and variable working capital? Explain the dangers of excessive working capital and also inadequate working capital.

7. Explain the factors influencing the dividend policy.

8. Explain the capital Budgeting process.

9. ABC company has currently an ordinary share capital of ₹25 lakhs, consisting of 25,000 shares of ₹100 each. The management is planning to raise another ₹20 lakhs to finance a major expansion programme through one of four possible financial plans. The options are:
   i) Entirely through ordinary shares
   ii) ₹10 lakhs through ordinary shares and ₹10 lakhs through long-term borrowings at 8% interest p.a.
iii) ₹ 5 lakhs through ordinary shares and ₹ 15 lakhs through long-term borrowings at 9% interest p.a.

iv) ₹ 10 lakhs through ordinary shares and ₹ 10 lakhs through preference shares with 5% dividend.

The company’s EBIT is ₹ 8 lakhs. Corporate Tax rate is 50%. Determine the earnings per share in each alternative and comment which alternative is the best.

10. A firm whose cost of capital is 10% is considering two projects A and B, the details of which are

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Project A</th>
<th>Project B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>₹ 2,00,000</td>
<td>₹ 2,00,000</td>
</tr>
<tr>
<td>Cash Inflows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>40,000</td>
<td>90,000</td>
</tr>
<tr>
<td>2</td>
<td>60,000</td>
<td>80,000</td>
</tr>
<tr>
<td>3</td>
<td>80,000</td>
<td>60,000</td>
</tr>
<tr>
<td>4</td>
<td>1,00,000</td>
<td>20,000</td>
</tr>
<tr>
<td>5</td>
<td>1,20,000</td>
<td>16,000</td>
</tr>
</tbody>
</table>

Compute:
1) Net present value at 10%.
2) Internal rate of return for
   Project A by 20% and 25% and
   Project B by 10% and 15%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Present Value Factors @ 10%</th>
<th>Present Value Factors @ 15%</th>
<th>Present Value Factors @ 20%</th>
<th>Present Value Factors @ 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.909</td>
<td>0.870</td>
<td>0.833</td>
<td>0.800</td>
</tr>
<tr>
<td>2</td>
<td>0.826</td>
<td>0.756</td>
<td>0.694</td>
<td>0.640</td>
</tr>
<tr>
<td>3</td>
<td>0.751</td>
<td>0.658</td>
<td>0.579</td>
<td>0.512</td>
</tr>
<tr>
<td>4</td>
<td>0.683</td>
<td>0.572</td>
<td>0.482</td>
<td>0.410</td>
</tr>
<tr>
<td>5</td>
<td>0.621</td>
<td>0.497</td>
<td>0.402</td>
<td>0.328</td>
</tr>
</tbody>
</table>
IV Semester B.B.M. Examination, April/May 2015
(Prior to 2013-14) (Repeaters)
BUSINESS MANAGEMENT
Paper – 4.4 : Financial Management
(100 Marks – 2012-13 Only/90 Marks – Prior to 12-13)

Time : 3 Hours  Max. Marks : 100/90

Instructions: 1) Answer all questions in English only.
2) Section A, B and C to be answered by all repeaters
(90 marks).
3) Section – D to be answered by students of 2012-13 only
(100 marks).

SECTION – A

1. Answer any 10 sub-questions. Each question carries two marks. (10x2=20)
   a) What are financing decisions?
   b) What is financial management?
   c) How do you calculate financial leverage?
   d) Mention any two types of debentures?
   e) What is marginal cost of capital?
   f) What is EBIT?
   g) Define capital structure.
   h) Give the meaning of cash dividend.
   i) What is receivables management?
   j) Mention any two motives of holding cash.
   k) Profit after tax is Rs. 80,000 and No. of Eq. shares is 5,000 shares. Find out EPS.
   l) What is a capital market?

SECTION – B

Answer any 5 questions. Each question carries 5 marks. (5x5=25)

2. State the factors influencing financial plan.

P.T.O.
3. List any 5 advantages of equity shares.

4. A Co. issues 10,000, 10% pref. shares of Rs. 100/- each redeemable after 10 years at a premium of 5%. The cost of issue is Rs. 2 per share. Calculate the cost of pref. share capital.

5. Calculate operating leverage and financial leverage from the following data:

<table>
<thead>
<tr>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>Variable cost</td>
</tr>
<tr>
<td>Fixed cost</td>
</tr>
<tr>
<td>Interest</td>
</tr>
</tbody>
</table>

6. What are the various forms of dividend? Explain.

7. A project costs Rs. 5,00,000 and yields an annual profit of Rs. 80,000 after depreciation at 12% p.a., but before tax @ 50%. Calculate the pay back period.

8. From the following capital structure of a company, calculate weighted average cost of capital:

<table>
<thead>
<tr>
<th>Sources of funds</th>
<th>Book value</th>
<th>After tax cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital</td>
<td>45,000</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>(shares of Rs. 10 each @ par)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>15,000</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Pref. share capital</td>
<td>10,000</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td>30,000</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>1,00,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION – C

Answer any three questions. Each question carries 15 marks. \((3 \times 15 = 45)\)

9. What are the factors influencing dividend policy? Explain.

10. What are the problems associated with Excess Working Capital and Inadequate Working Capital?
11. ABC Ltd. has an EBIT of Rs. 1,60,000. Its capital structure consists of the following securities:

- 10% Debentures of Rs. 5,00,000
- 12% Pref. shares capital of Rs. 1,00,000
- Equity shares of Rs. 100 each Rs. 4,00,000

The tax rate of the company is 50%.

You are required to calculate EPS.

a) When EBIT increases by 30%

b) When EBIT decreases by 30%.

12. A company whose cost of capital is 10% is considering two mutually exclusive projects X and Y. The details are

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year</th>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment</td>
<td></td>
<td>Rs. 70,000</td>
<td>Rs. 70,000</td>
</tr>
<tr>
<td>Cash inflows:</td>
<td>1</td>
<td>Rs. 10,000</td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Rs. 20,000</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Rs. 30,000</td>
<td>Rs. 20,000</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Rs. 45,000</td>
<td>Rs. 10,000</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Rs. 60,000</td>
<td>Rs. 10,000</td>
</tr>
</tbody>
</table>

Compute the NPV and profitability index for both the projects.

The PVF @ 10% for each year is

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>PVF</td>
<td>0.909</td>
<td>0.826</td>
<td>0.751</td>
<td>0.683</td>
<td>0.621</td>
</tr>
</tbody>
</table>

13. Explain the process involved in capital budgeting.

SECTION – D

To be answered by students of 2012-13 only. (1×10=10)

14. Explain the factors determining the capital structure.
IV Semester B.B.M. Examination, April/May 2015
(Semester Scheme) (Fresh + Repeaters) (2013-2014 and Onwards)
Paper – 4.4 : FINANCIAL MANAGEMENT
Business Management

Time : 3 Hours
Max. Marks : 100

Instruction: Answers should be written only in English.

SECTION – A

1. Answer any eight sub-questions. Each sub-question carries 2 marks. (2×8=16)
   a) What is Financial Management?
   b) State the meaning of cost of capital.
   c) Define capital budgeting.
   d) Mention the steps involved in Financial Planning.
   e) What is Financial Risk?
   f) What do you mean by ROI?
   g) What is meant by optimal capital structure?
   h) Distinguish between financial leverage and operating leverage.
   i) Give the meaning of profitability index.
   j) What is time value of money?

SECTION – B

Answer any three questions. Each question carries eight marks. (3×8=24)

2. Bring out the importance of capital budgeting.

3. ABB Ltd. invested ₹ 2,00,000 on some project the project, generates profits before depreciation and tax of ₹ 70,000 p.a. for a period of 5 years. The scrap value of the project at the end of 5th year is zero. Determine average rate of return for the project assuming 50% tax and straight line method of providing depreciation. Calculate average rate of return.
4. Harshitha Ltd. has an average selling price of ₹ 20 per unit. Its variable costs are ₹ 14 and fixed costs ₹ 6,80,000. All its capital are financed by equity funds. It pays 50% tax on its income. Nishitha Ltd. is identical to Harshitha Ltd. but its capital is financed by equity and other half by debt, the interest on which amounts Rs. 80,000.

Determine the degree of operating, financing and combined leverage at ₹ 28,00,000 sales for both the firm.

5. A debenture is available in the market for ₹ 1,000 with ₹ 80 on the interest for a year for a period of 4 years with maturity value of ₹ 1,120. The debenture capitalisation rate is 10%. Advise Mrs. Anitha in her buying decision of this debenture.

SECTION – C

Answer Question No. 10 and any three of the remaining questions. Each question carries 15 marks. (4×15=60)

6. Explain the factors affecting the working capital needs of an enterprise.

7. Explain in detail the functions of financial management.

8. Explain the factors which determine the dividend policy of a firm.

9. RCB Ltd. needs 50,00,000 for construction of a new plant. The following three financial plans are feasible.
   a) The company may issue 50000 equity shares at ₹ 100 per share.
   b) The company may issue 25000 equity shares of ₹ 100 each and 2500 debentures of ₹ 100 each at 8% interest.
   c) The company may issue 25000 equity shares at ₹ 100 per share and 25,000 pref. shares at ₹ 100 per share bearing 8% dividend.

If the company’s earnings before interest and taxes are ₹ 1,00,000, ₹ 2,00,000 and ₹ 4,00,000 what are EPS under each of the three financial plans. Which alternative would you recommend and why? Assume corporate tax to be at 50%.
10. A firm whose cost of capital is 10% considering two projects 'x' and 'y'. The details of which are

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Project 'x'</th>
<th>Project 'y'</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹</td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>Investment cash inflow</td>
<td>4,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>1</td>
<td>80,000</td>
<td>1,80,000</td>
</tr>
<tr>
<td>2</td>
<td>1,20,000</td>
<td>1,60,000</td>
</tr>
<tr>
<td>3</td>
<td>1,60,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>4</td>
<td>2,00,000</td>
<td>40,000</td>
</tr>
<tr>
<td>5</td>
<td>2,40,000</td>
<td>36,000</td>
</tr>
</tbody>
</table>

Compute the NPV @ 10%, profitability index and internal rate of return for the two projects separately, project x by 20% and 29% and project y by 9% and 15%. Using the following discount factor calculate IRR.

<table>
<thead>
<tr>
<th>Year</th>
<th>Project 'x'</th>
<th>Project 'y'</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>1</td>
<td>0.833</td>
<td>0.775</td>
</tr>
<tr>
<td>2</td>
<td>0.694</td>
<td>0.601</td>
</tr>
<tr>
<td>3</td>
<td>0.579</td>
<td>0.466</td>
</tr>
<tr>
<td>4</td>
<td>0.483</td>
<td>0.361</td>
</tr>
<tr>
<td>5</td>
<td>0.402</td>
<td>0.280</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>0.909</td>
<td>0.826</td>
<td>0.751</td>
<td>0.683</td>
</tr>
<tr>
<td></td>
<td>0.621</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>