

Reg. No. :

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Sub. Code : GMBA 62

B.B.A. (CBCS) DEGREE EXAMINATION, APRIL 2016.

Sixth Semester

Business Administration — Main

FINANCIAL MANAGEMENT

(For those who joined in July 2012 and afterwards)

Time : Three hours .

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Wealth maximisation means maximising the _____ of a course of action.
(a) Profit (b) Capital
(c) Net present value (d) Cash flow
2. Financial Management mainly protects the _____ interest of the persons who are directly or indirectly connected with the company.
(a) Public (b) Work
(c) Economic (d) None of these

Earnings of the firm Rs. 2,00,000

Dividends paid Rs. 1,50,000

Price-earnings ratio 12.5

Number of shares

outstanding 20,000 @ Rs. 100 each

The firm is expected to maintain its current rate of earnings on investment.

- (ii) What should be price — earnings ratio at which dividend pay out ratio will have no effect on the value of the share?
- (iii) Will your decision be changed if the P/E ratio is 8 instead of 12.5?



3. The _____ of a company implies debt and equity components raised from long term sources.
- (a) assets (b) capital structure
(c) liabilities (d) none of these
4. M.M. Approach in capital structure indicates _____.
- (a) Modigliani and Miller
(b) Maslow and Miller
(c) Modigliani and Maslow
(d) None of the above
5. Working capital management is concerned with _____ term financial decisions.
- (a) short (b) long
(c) medium (d) all the above
6. _____ refers to the proportion of current assets to be financed by current liabilities and long-term sources.
- (a) Financing mix (b) Hedging
(c) Trade-off (d) NWC

7. The discount rate that equates the present value of cash inflows with cash outflows is _____.
- (a) implicit cost (b) explicit cost
(c) specific cost (d) future cost
8. While evaluating capital investment proposals, the time value of money is considered in case of
- (a) Pay-back method
(b) Accounting rate of return method
(c) Discounted cash flow method
(d) Average rate of return method
9. According to M.M.Model, the price of a company's share is determined by its _____ policy.
- (a) investment (b) profit
(c) dividend (d) bonus
10. Issue of bonus shares may also termed as _____ of profits of a company.
- (a) pre-emptive (b) capitalisation
(c) income distribution (d) distribution



PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).

Each answer should not exceed 250 words.

11. (a) What are the main functions of the modern Finance Manager?

Or

- (b) Write a short note on profit maximisation.

12. (a) What do you mean by cost of retained earnings? How is it ascertained?

Or

- (b) Explain the importance of capital structure.

13. (a) Explain various determinants of working capital of a concern.

Or

- (b) Assume, a firm which purchases raw materials on credit is required by the credit terms to make payments within 30 days. On its side the firm allows its credit buyers to pay within 60 days. The firm's experience has been that it takes, on an average, 35 days to

Page 4 Code No. : 12684

pay its accounts payable and 70 days to collect its accounts receivable. Moreover, 85 days elapse between the purchase of raw materials and the sale of finished goods, that is to say, the average age of a firm's inventory is 85 days. What is the firm's cash cycle? Also, estimate the cash turn-over.

14. (a) What is capital budgeting? State its objectives.

Or

- (b) A project needs an investment of Rs. 1,38,500. The cost of capital is 12%. The net cash inflows are as under :

Year	Rs.
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Calculate the Internal Rate of Return and suggest whether the projects should be accepted or not.

Page 5 Code No. : 12684



15. (a) The Agro-Chemicals Company belongs to a risk class for which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs.5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if a dividend is not declared? What will be if one is declared? Answer these on the basis of M.M. Model and assume no taxes.

Or

- (b) Write a note on Gordon's Model.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

Each answer should not exceed 600 words.

16. (a) Explain the different types of financial management decisions.

Or

- (b) How is the finance function organized in a large firm?

Page 6 Code No. : 12684

17. (a) XYZ Ltd is earning a net profit of Rs. 80,000/- per annum. The shareholders' required rate of return is 10 %. It is expected that retained earnings, if distributed among the shareholders can be invested by them in securities of similar type carrying return of 10% per annum. It is further expected that the shareholders will have to incur 3% of the net dividends received by them as brokerage cost for making new investments. The shareholders of the company are in 40% tax bracket. You are required to calculate the cost of retained earnings to the company.

Or

- (b) What are the factors to be considered in determining the capital structure of a company?

18. (a) ABC Company has the following selected assets and liabilities :

	Rs.
Cash	75,000
Retained earnings	1,40,000
Equity share capital	1,50,000
Debtors	80,000
Inventory	1,31,000
Debentures	1,00,000

Page 7 Code No. : 12684



	Rs.
Provision for taxation	69,000
Expenses outstanding	33,000
Land and building	5,00,000
Goodwill	50,000
Furniture	45,000
Creditors	29,000

You are required to determine :

- (i) Gross working capital and
- (ii) Net working capital.

Or

- (b) Discuss the utility of the cash budget as a tool of the cash management. What are the steps involved in the construction of a cash budget?

19. (a) Describe the evaluation methods of capital budgeting proposals.

Or

- (b) A large sized textile company is considering investing in a project that costs Rs. 5,00,000. The estimated salvage value is zero. Tax rate is 55%. The company uses straight line depreciation and the proposed project has Cash Flows Before Tax (CFBT) as follows :

Year	CFBT (Rs.)
1	1,00,000
2	1,25,000
3	1,50,000
4	1,75,000
5	2,25,000

Determine the following:

- (i) Pay — back period
- (ii) Internal rate of return
- (iii) Net present value at 15%
- (iv) Profitability index at 15%.

20. (a) What do you understand by Dividend policy? What are the main determinants of dividend policy in a corporate enterprise?

Or

- (b) (i) From the following information supplied to you, ascertain whether the firm's dividend pay out ratio is optimal according to Walter? The firm was started a year before with equity capital of Rs. 20,00,000.

