

Reg. No. :

Code No. : 10417 E Sub. Code : AMBA 51

B.B.A. (CBCS) DEGREE EXAMINATION,
NOVEMBER 2022.

Fifth Semester

Business Administration - Core

FINANCIAL MANAGEMENT

(For those who joined in July 2020 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Basic objective of financial Management is
 - (a) Maximisation of profits
 - (b) Maximisation of shareholders wealth
 - (c) Ensuring financial discipline in the organization
 - (d) None of these

20. (a) Briefly explain the Determinants of Working Capital.

Or

- (b) Write an essay about the various techniques in inventory management.

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2. In time value of money, nominal rate is _____.
- (a) Not shown on timeline
 - (b) Multiplied on timeline
 - (c) Shown on timeline
 - (d) Dividend on timeline
3. The _____ is the minimum required rate of return that will maintain the value of a firm's equity shares.
- (a) Capital structure
 - (b) Cost of capital
 - (c) Leverage
 - (d) Equity share
4. Overall cost of capital can be denoted as _____.
- (a) Weighted Average Cost of Capital
 - (b) Composite Cost of Capital
 - (c) Both (a) and (b)
 - (d) Cost of equity
5. Depreciation is included in costs in case of _____.
- (a) Pay-back method
 - (b) Accounting rate of return method
 - (c) Net Present value method
 - (d) Profitability Index method

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6. While evaluating capital investment proposals, the time value of money is considered in case of _____.
- (a) Discounted cash flow method
 - (b) Non-discounted cash flow method
 - (c) Net Present value method
 - (d) IRR method
7. According to the _____ model, the dividend decision is irrelevant.
- (a) MM
 - (b) Walter
 - (c) Gordon
 - (d) XY
8. In retention growth model, payout ratio is subtracted from one to calculate _____.
- (a) Present value ratio
 - (b) Future value ratio
 - (c) Retention ratio
 - (d) Growth ratio
9. The rate of return on investment _____ with the shortage of working capital.
- (a) Falls
 - (b) Constant
 - (c) Going
 - (d) Change

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10. Receivables management deals with _____.
- Receipts of raw materials
 - Creditors management
 - Debtors collection
 - Inventory management

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).
Each answer should not exceed 250 words.

11. (a) Examine the Nature of Financial Management.

Or

- (b) Explain the Time value of Money.

12. (a) A Company issues Rs. 10,00,000 10% redeemable debentures at a discount of 5%. The costs of floatation amount 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%.

Or

- (b) A company has earnings before interest and taxes of Rs. 1,00,000. 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 MM theory.

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13. (a) There are two projects X and Y. Each project requires an investment of Rs. 20,000. You are required to rank these projects according to the pay-back period from the following :

Years Project X Project Y

1	1,000	2,000
2	2,000	4,000
3	4,000	6,000
4	5,000	8,000
5	8,000	—

Or

- (b) A project requires an investment of Rs. 5,00,000 and has a scrap value of Rs. 20,000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs. 20,000. Calculate the ARR on the investment.

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14. (a) Discuss Walter model of share valuation vis-à-vis dividend policy.

Or

- (b) The earnings per share of Nadal Ltd. are Rs.15 and the rate of capitalization applicable to the company is 12%. The productivity of earnings @ is 12%. Compute the market value of the company's share if the payout is

- (i) 20% and
(ii) 50%.

15. (a) Explain the different types of working capital.

Or

- (b) From the following particulars calculate the economic order quantity (EOQ) :

Annual usage — 4,000 units
Cost of material per unit — Rs. 20
Cost of placing and receiving one order — Rs. 40
Annual Carrying cost of one unit — 10% of inventory value

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PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b)
Each answer should not exceed 600 words.

16. (a) Describe the objectives of financial management in detail.

Or

- (b) Discuss about the concept of Time value of Money.

17. (a) A firm has the following capital structure and after tax costs for the different sources of funds used :

Sources	Amount	Proportion	After tax cost
Debt	Rs. 15,00,000	25%	5%
Preference capital	Rs. 12,00,000	20%	10%
Equity capital	Rs. 18,00,000	30%	12%
Retained earnings	Rs. 15,00,000	25%	11%
	<u>60,00,000</u>	<u>100</u>	

You are required to compute the Weighted Average Cost of Capital.

Or

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- (b) A company expects a net income of Rs. 80,000. It has Rs. 2,00,000 in 8% debentures. The cost of equity capital or capitalization rate is 10%. Calculate the total value of the firm and overall capitalization according to the Net Income Approach.

18. (a) A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow after taxes and before depreciation.

Year	Net Cash flow Rs.
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000

Year	Net Cash flow Rs.
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital determine the following Net Present value at 10% discount factor.

Or

- (b) Explain the importance of Capital Budgeting.

19. (a) The earnings per share of company are Rs. 8 and the rate of capitalization applicable to the company is 10%. The company has before it an option of adopting a payout ratio of 25%. Using walter model formula of dividend payout, compute the market value of the company share if the productivity of retained earnings is
- 15%
 - 10% and
 - 5%.

Or

- (b) Discuss the different types of dividend policy.

