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M.B.A.(CBCS) DEGREE EXAMINATION,
NOVEMBER 2016.

Third Semester

Business Administration

FINANCIAL MANAGEMENT

(For those who joined in July 2012-2015)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Cost of capital consists of

- (a) normal rate of return at zero risk level
- (b) premium for business risk
- (c) premium for financial risk
- (d) all of the above

2. The time value of money in capital budgeting is considered under

- (a) NPV method
- (b) IRR method
- (c) both (a) and (b)
- (d) pay-back period

3. Working capital is also called as

- (a) fixed capital
- (b) short-term capital
- (c) current liabilities
- (d) equity capital

4. Cash management deals with

- (a) cash flows
- (b) inventories
- (c) plant maintenance
- (d) fixed assets

5. A capital structure has

- (a) depreciation
- (b) long-term forms of finance
- (c) short-term finance
- (d) promotion

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6. Total amount of securities issued by a company is called
- (a) capitalisation
 - (b) profits
 - (c) bonus
 - (d) dividends
7. The types of dividend policy include
- (a) regular dividend policy
 - (b) stable dividend policy
 - (c) both (a) and (b)
 - (d) IRR
8. EPS stands for
- (a) Earlier Profitable Share
 - (b) Existing Price of Share
 - (c) Earnings Per Share
 - (d) Expected Profit per Share
9. Break-even analysis takes into account
- (a) fixed cost
 - (b) variable cost
 - (c) selling price
 - (d) all of the above

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10. Liquidity ratios include
- (a) current ratio
 - (b) debt-equity ratio
 - (c) capital budgeting
 - (d) capitalisation

PART B — (5 × 5 = 25 marks)

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

Each answer should not exceed 250 words.

11. (a) Bring out the objectives of corporate financial decisions.
- Or
- (b) A company issues 10,000 equity shares of Rs. 100 each at a premium 12%. The company has been paying 20% dividend to equity shareholders for the past 5 years and expects to maintain it in the future also. Calculate cost of equity capital.
12. (a) Explain the need for working capital.
- Or
- (b) Why is cash management considered significant?

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[P.T.O.]



13. (a) Describe the features of a sound capital structure.

Or

- (b) Examine the nature of shares.

14. (a) What is dividend policy? State its characteristics.

Or

- (b) Explain Modigliani and Miller approach to dividend policy.

15. (a) Discuss the uses of financial statements.

Or

- (b) Compare and contrast operating leverage with financial leverage.

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 nature and scope of financial management.

Or

- (b) A company is considering to make investment in a project costing Rs. 2,00,000.

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The project is expected to have a life period of five years and has no salvage value. The company adopts straight line method of depreciation. The tax rate is 40%. The estimated earnings before depreciation and tax from the project are as follows.

Year	Earnings before depreciation and tax	Present value factor at 10%
1	Rs. 70,000	0.909
2	Rs. 80,000	0.826
3	Rs. 1,20,000	0.751
4	Rs. 1,00,000	0.683
5	Rs. 60,000	0.621

You are required to calculate the net present value at 10% and advise the company.

17. (a) Discuss the factors to be considered to estimate working capital requirements.

Or

- (b) Bring out the need and importance of short-term finance in a company

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18. (a) Describe the role of capitalisation in financial management.

Or

- (b) Examine various forms of capital structure.

19. (a) Discuss the determinants of dividend policy.

Or

- (b) Examine the dividend policies followed by Indian corporate sector in general.

20. (a) What do you mean by Break-even analysis? State its advantages.

Or

- (b) Bring out the salient features of Indian financial markets.
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