(8 Pages)

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

Sixth Semester

Business Administration — Core

FINANCIAL MANAGEMENT

(For those who joined in July 2017 onwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Financial management is mainly concerned with ————
   (a) All aspects of acquiring and utilizing financial resources of firms activities
   (b) Arrangement of funds
   (c) Efficient management of every business
   (d) Profit maximization

2. The prime objective of an enterprise is
   (a) Maximization of sales
   (b) Maximization of owner's equity
   (c) Maximization of profit
   (d) Wealth maximization

3. The company's average cost of capital is ————
   (a) the average cost of equity shares and debentures
   (b) the average cost of equity preference shares
   (c) the average cost of shares and all sources of long-term funds
   (d) the average cost of short term funds

4. The cost of debt capital is calculated on the basis of ————
   (a) Net proceeds
   (b) Annual interest
   (c) Annual depreciation
   (d) Capital

5. Financial leverage measures ————
   (a) Sensitivity of EBIT with respect of % change with respect to output
   (b) % variation in the level of production
   (c) Sensitivity of EPS with respect to % change in level of EBIT
   (d) No change with EBIT and EPS

6. Operating leverage measures ————
   (a) Business risk (b) Financial risk
   (c) Both (a) and (b) (d) Production risk

7. Traditional approach confines finance function only to ———— funds.
   (a) Raising (b) Mobilizing
   (c) Utilizing (d) Financing

8. The term "capital structure" indicates to ————
   (a) Long-term debt, preferred stock and common stock equity
   (b) Shareholders' equity
   (c) Total assets – liabilities
   (d) None of the above

9. Capital budgeting is related to ————
   (a) Long term assets (b) Short term assets
   (c) Both (a) and (b) (d) Fixed assets

10. The rate of discount at which NPV of a project becomes zero is also known as ————
    (a) Average rate of return
    (b) Internal rate of return
    (c) Alternative rate of return
    (d) Return on investment

PART B — (5 × 5 = 25 marks)

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

Each answer should not exceed 250 words.

11. (a) Explain the functions of finance.

Or

(b) Mention the significance of financial management.

12. (a) The following information is available from the balance sheet of a company.

Equity share capital – 20,000 shares Rs. 10 each	Rs. 2,00,000
Reserves and surplus	Rs. 1,30,000
8% debentures	Rs. 1,70,000

The rate of tax for the company is 50%. Current level of equity dividend is 12%. Calculate the weighted average cost of capital using the above figures.

Or

(b) Explain the importance of cost of capital.

13. (a) Explain the factors which influence the dividend policy of a firm.

Or

(b) Consider the following information of KK enterprise.

	Rs.
EBIT	1,120
PBT	320
Fixed cost	700

Calculate percentage change in earning per share if sales increased by 5%.

14. (a) Describe the assumptions of net income approach.

Or

(b) Explain the implication of MM approach and illustrate with suitable examples.

15. (a) Elaborate the important steps in the capital budgeting process.

Or

(b) An equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipments is 11%. Calculate the IRR and NPV for each equipment.

PART C — (5 × 8 = 40 marks)

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

Each answer should not exceed 600 words.

16. (a) Examine the scope of financial management.

Or

(b) Distinguish between profit and wealth maximization.

17. (a) Distinguish between the weighted average cost of capital and the marginal cost of capital. Which one should be used in capital budgeting and valuation of the firm? Why?

Or

(b) The following are the capital structure of a firm :

Source of finance	Amount (Rs.)	Proportion (%)
Equity (paid-up) share capital	4,50,000	45
Retained earnings (Reserves)	1,50,000	15
Preference share capital	1,00,000	10
Debt	3,00,000	30
	10,00,000	100

The firm's expected after-tax component costs of the various sources of finance are as follows :

Source	Cost (%)
Equity capital	18.0
Retained earnings	18.0
Preference capital	11.0
Debt	8.0

Calculate weighted average cost of capital.

18. (a) Explain the types of leverages.

Or

(b) Examine the essentials of Walter's dividend model. Explain its shortcomings.

19. (a) "The M-M approach is based on unrealistic assumptions". Evaluate the reality of the assumptions made by M-M.

Or

(b) Compare and contrast between NOI and NI approach.

20. (a) Explain the limitations of payback method.

Or

(b) Project A has the following cash flows.

Cash flows (Rs.)

C0	C1	C2
–800	+1,200	–400

Calculate the projects IRR. If the require rate of return is 25%. Would you accept the project, Why?