Reg. No. : ....

Code No. : 21010 E **Sub. Code : EMBA 32/ EMAM 32**

B.B.A. (CBCS) DEGREE EXAMINATION, NOVEMBER 2024.

Third Semester

Business Administration/Aviation – Core

FINANCIAL MANAGEMENT

(For those who joined in July 2023 onwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Objective of financial management is:

(a) profit maximization

(b) wealth maximization

(c) assets maximization

(d) Sales maximization

(b) From the following information, you are required to forecast their working capital requirement.

Projected Annual Sales	-	Rs. 65,00,000
Percentage of net profit on cost of sales	-	25%
Average credit period allowed to debtors	-	10 weeks
Average credit period allowed by creditors	-	4 weeks
Average stock carrying (in terms of sales requirement)	-	8 weeks

Add 10% to computed figures to allow for contingencies.

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2. Finance function involves:

(a) Procurement of finance only

(b) Expenditure of funds only

(c) Safe custody of funds

(d) Procurement and effective utilization of funds

3. External sources of finance do not include:

(a) Overdrafts (b) Debentures

(c) Leasing (d) Retained Earnings

4. An implicit cost of increasing proportion of debt is:

(a) Tax should not be available on new debt,

(b) P.E. Ratio would increase,

(c) Equity shareholders would demand higher return,

(d) Rate of Return of the company would decrease

5. Cost of capital may be defined as:

(a) Weighted Average cost of all debts,

(b) Rate of Return expected by Equity Shareholders

(c) Average IRR of the Projects of the firm,

(d) Minimum Rate of Return that the firm should earn

6. Weighted Average Cost of Capital is generally denoted by:

(a) ke (b) kd,

(c) k0, (d) kp

7. Which of the following is not used in capital budgeting?

(a) Time Value of Money

(b) Sensitivity Analysis

(c) Net Assets Value Method

(d) Cash Flows

8. Which of the following assumes that cash flows from a project are uniform throughout the life of the project?

(a) Internal Rate of Return

(b) Net present Value

(c) Profitability Index

(d) None of the above

9. What is working capital?

(a) current assets minus current liabilities

(b) total assets minus total liabilities

(c) long term assets minus long term liabilities

(b) net income plus dividends.

10. Why is working capital important for business?

(a) To meet long term financial obligation

(b) To invest in new projects

(c) To manage day to day operations

(d) To pay dividends to share holders

PART B — (5 × 5 = 25 marks)

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

11. (a) Define financial management. State the significance of financial management.

Or

(b) Analyse the role commercial paper in meeting the short-term financial needs of large corporations.

12. (a) State the various rights and position of equity share holders.

Or

(b) Aparna Steel Ltd. has employed 15% debt Rs. 12,00,000 in its capital structure. The net operating income of the firm is Rs. 5,00,000 and has an equity capitalization ratio of 16%. Assuming that there is no tax, find out the value of the firm under the Net Income Approach.

13. (a) A company raised preference share capital of Rs. 1,00,000 by issue of 10% redeemable preference shares, redeemable at the end of the 10^{th} year from the year of their issue. The underwriting costs came to 2%. Calculate the effective cost of preference share capital.

Or

(b) Discuss the importance of calculating cost of capital.

14. (a) Analyse the advantages and limitations of NPV.

Or

(b) X Ltd is considering two projects. Each requires an investment of Rs. 10,000. The net cash inflows from investment in the two projects X and Y are as follows:

Years	Project X	Project Y
1	5,000	1,000
2	4,000	2,000
3	3,000	3,000
4	1,000	4,000
5	—	5,000
6	—	6,000

Calculate its payback period.

15. (a) Briefly explain the factors which determine the working capital needs of firm.

Or

(b) From the following estimates, calculate the average amount of working capital required.

	Per annum (Rs.)
(i) Average amount locked up in stock	
Stock of finished goods and work-in-progress	20,000
Stock of stores, material etc.,	16,000
(ii) Average credit given	
Local sales 2 week's credit	2,08,000
Outside the state 6 weeks credit	6,24,000
(iii) Time available for payments:	
For purchase 4 weeks	1,56,000
For wages 2 weeks	5,20,000

Add 10% to allow for contingencies.

PART C — (5 × 8 = 40 marks)

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

16. (a) Discuss the advantages and disadvantages of seeking finance from venture capitalist.

Or

(b) Evaluate the pros and cons of using factoring and invoice discounting as a source of finance for small businesses.

17. (a) Discuss the importance of capital structure planning.

Or

(b) A new project under consideration by your company requires a capital investment of Rs.150 lakhs. Interest on term loan is 12% and tax rate is 50%. If the debt equity ratio insisted by the financing agencies is 2:1, calculate the point of indifference for the project.

18. (a) From the following capital structure of a company, calculate the overall cost of capital, using

(i) book value weights, and

(ii) market value weighs.

Source	Book Value (Rs.)	Market Value (Rs.)
Equity share capital	45,000	90,000
Preference share capital	10,000	10,000
Debentures	30,000	30,000
Retained earnings	15,000	—

The after-tax cost of different sources of finance is as follows.

Equity share capital	- 14 %
Preference share capital	- 10 %
Debentures	- 5 %
Retained earnings	- 13 %

Or

(b) Discuss the relationship between cost of capital and investment decisions.

19. (a) Explain the impact of risk on capital budgeting decisions.

Or

(b) The Alpha Co. Ltd. is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested, each having an initial cost of Rs. 4,00,000 and requiring Rs.20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be as follows.

Year	Cash Inflows	
	Machine A (Rs.)	Machine B (Rs.)
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable.

Note: The following table gives the present value of Re.1 due in *n* number of years:

Year	present value at 10%
1	0.91
2	0.83
3	0.75
4	0.68
5	0.62

20. (a) Analyse the components of working capital and their impact on business operations.

Or