(8 pages) **Reg. No. :** ....

Code No. : 12684 **Sub. Code : GMBA 62**

B.B.A. (CBCS) DEGREE EXAMINATION,
APRIL 2018.

Sixth Semester

Business Administration – Main

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. A company may increase its profitability by having a very high ———————— ratio.
   (a) debt - equity (b) liquidity
   (c) current (d) investment

2. ———————— is the difference between revenue and costs.
   (a) wealth (b) value
   (c) profit (d) sales

3. ———————— cost is inclusive of all cost of capital from all sources.
   (a) Marginal (b) Composite
   (c) Specific (d) Historical

4. According to traditional approach, cost of capital is affected by ————————
   (a) debt-equity mix (b) dividend price
   (c) realized yield (d) earning price

5. ———————— working capital means idle funds which earn no profit for the business.
   (a) Inadequate (b) Excessive
   (c) Permanent (d) Temporary

6. ———————— provides a good source of funds for working capital.
   (a) Depreciation fund
   (b) Provision for taxation
   (c) Accrued Expenses
   (d) All the above

7. The number of years required to recover the original investment by savings before depreciation but after the payment of taxes is ——————

(a) pay back period (b) cash flow

(c) fund flow (d) net earnings

8. The difference between the total present values of future cash inflows and future cash outflows is called

(a) profitability index

(b) value index

(c) NPV

(d) IRR

9. Dividends are periodic cash payments made by the company to ——————

(a) government (b) debenture holders

(c) shareholders (d) investors

10. In case of firms having 'r' > 'k', the optimum dividend policy requires —————— dividend pay out ratio.

(a) maximum (b) minimum

(c) zero (d) no

PART B — (5 × 5 = 25 marks)

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

Answer should not exceed 250 words.

11. (a) "The main objective of Financial Management is profit maximization" – Explain the statement and give arguments for and against that.

Or

(b) Explain the functions of financial management in detail.

12. (a) Describe the importance of Cost of capital.

Or

(b) A Company's cost of equity capital is 15%. The average tax rate of shareholders is 40% and the brokerage cost for purchase of securities is 2%. Calculate the cost of Retained Earnings.

13. (a) Briefly explain the types of working capital.

Or

(b) What are the disadvantages of inadequate working capital?

14. (a) Explain the capital budgeting process.

Or

(b) For the following project calculate (i) Payback period (ii) Post payback profitability (iii) Post payback Profitability index.

Initial Outlay	Rs. 1,00,000
Annual cash inflows	Rs. 20,000

Estimated life 8 years.

15. (a) Write a note on Bonus Shares.

Or

(b) The earnings per share of a company is Rs. 12. The cost of equity capital is 10%. The rate of return on investments is 15%. Compute the market price per share under Walter's model if the payout is (i) 50% (ii) 75%.

PART C — (5 × 8 = 40 marks)

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

Answer should not exceed 600 words.

16. (a) "Financial Manager acts as a Treasurer and as a Controller"- Explain.

Or

(b) What is the significance of Financial Management?

17. (a) Discuss the classification of cost of capital with suitable examples.

Or

(b) From the following capital structure of a company, calculate the overall cost of capital using (i) book value weights and (ii) market value weights:

Source	Book value	Market value	After Tar cost
Debentures	30,000	30,000	5%
Preference share capital	10,000	10,000	10%
Equity share capital (Rs. 10/share)	45,000	90,000	14%
Retained earnings	15,000	–	13%

18. (a) Explain the various sources of temporary working capital available to a firm.

Or

(b) ABC Company has the following selected assets and liabilities:

	Rs.
Cash	45,000
Retained Earnings	1,60,000
Equity Share Capital	1,50,000
Debtors	60,000

	Rs.
Inventory	1,11,000
Debentures	1,00,000
Provision for Taxation	57,000
Expenses outstanding	21,000
Land and Building	3,00,000
Goodwill	50,000
Furniture	25,000
Creditors	39,000

You are required to determine (i) Gross working capital (ii) Net working capital.

19. (a) Explain the importance of capital budgeting.

Or

(b) Victoria Ltd. is considering the purchase of one of the two machines. As the basis for selection, following data was developed.

	Machine A (Rs.)	Machine B (Rs.)	PV factors @ 16%
Original cost	25,565	25,565	
Profit after tax:			
Year 1	687	4,687	.86
Year 2	1,687	3,687	.74
Year 3	2,687	2,687	.64
Year 4	3,687	1,687	.55
Year 5	4,687	687	.48
	13,435	13,435	

The expected rate of return for the company is 16%. Both the machines have a life of five years and will not have any salvage value. The company is in the 40% tax bracket. You are required to calculate NPV and PV Index, Suggest the most profitable machine.

20. (a) Explain the factors affecting the dividend policy of a firm.

Or

(b) Discuss the different dividend models in detail.