Reg. No. : ....

Code No. : 30694 E **Sub. Code : CMBA 61**

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

Sixth Semester

Business Administration — Core

FINANCIAL MANAGEMENT

(For those who joined in July 2021-2022)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Financial management is focused mainly at ——————.

   (a) Improving profits

   (b) Minimization of expenses

   (c) Managing tasks

   (d) Serving public

2. Present value takes ————.

(a) Compounding rate

(b) Deflation rate

(c) Inflation rate

(d) Discounting rate

3. The term working capital management signifies ————.

(a) Fixed asset

(b) Fixed liabilities

(c) Short-term liability

(d) Short-term assets and liability

4. Inventory is displayed under ————.

(a) Current liabilities

(b) Current assets

(c) Contingent liability

(d) Fixed assets

5. Dividend can be paid on the form of ————.

(a) Cash

(b) Bond

(c) Promissory note

(d) All of the above

6. According to Walter. the firm should retain to profit if ————.

(a) $r > k$

(b) $r = k$

(c) $r < k$

(d) $r \neq k$

7. The value of EBIT at EPS equal to zero is known as ————.

(a) Operating BEP

(b) Financial BEP

(c) Overall BEP

(d) BEP

8. According to Net operating income approach. with increase in debt equity ratio, the financial risk of equity holders ————.

(a) Decreases

(b) Increases

(c) No change

(d) Depends of leverage

9. Where a firm imposes budgetary constraints on project, it is called ————.

   (a) Cash budgeting

   (b) Capital rationing

   (c) Capital budgeting

   (d) Capital scarcity

10. A Project is accepted if profitability index is ————.

   (a) Equal to 1

   (b) Less than 1

   (c) Greater than 1

   (d) None of the above

PART B — (5 × 5 = 25 marks)

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

Each answer should not exceed 250 words.

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

Or

   (b) Point out the advantages of wealth maximization concept.

12. (a) Brown Ltd. has a total sales revenue of Rs.120 lakh a year of which 75% are credit sales. The firm has an investment opportunity in the money market to earn a return of 18% p.a. If the firm could reduce its float by 3 days, what would be the annual savings for it?

Or

   (b) Discuss the significance of cost of capital.

13. (a) Explain the difference between conservative and liberal policy.

Or

   (b) The earnings per share of a company are Rs.24. The cost of equity capital is 10%. The rate of return on investment is 15%. Compute the market price per share under Walter's model. If the payout is (i) 50% (ii) 75%.

14. (a) A firm requires total capital funds of Rs.50 lacs and has two options: All equity; and Half equity and half 15% debt. The equity shares can be currently issued at Rs.100 per share. The expected EBIT of the company is Rs.5,00,000 with tax rate at 40%. Find out the EPS under both the financial mix.

Or

(b) Calculate EPS of Ultra Ltd. assuming

(i) 20% return on assets and

(ii) 15% on assets based on the following date:

Assets	20,00,000
12% Debenture	5,00,000
Equity shares Rs.10 each	15,00,000

Assume income tax rate as 40%.

15. (a) A project costs Rs.5,00,000 and yields annually a profile of Rs.80,000 after depreciation 12% but before tax of 50%. Calculate the payback paid.

Or

(b) An investment proposal is expected to result in an average annual income of Rs.8,00,000 after depreciation and tax. If the investment needed is Rs.40,00,000 initially. Compute the ARR on original investment.

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 changing scenario of financial management in India.

Or

(b) Explain the discounting technique of adjusting for time value of money.

17. (a) From the following information is available in respect of Ram Ltd.

Stock holding: Raw materials	12 days
W.I.P	30 days
Finished goods	45 days
Average debt collection period	45 days
Time lag in payment of bills	2 months

Calculate

(i) Operating cycle

(ii) No. of operating cycles in a year assuming a 360 day's year and

(iii) Average working capital required, if annual cash operating expenses are Rs.2,40,000.

Or

(b) E Ltd., shares are selling at Rs.100 per share and it paid a dividend Rs.10 per share last year. The investors expect a growth rate of 10% per year.

(i) Compute cost of capital

(ii) Compute the market price if the anticipated growth in dividend is 6%.

18. (a) From the following data relate to Hundai Ltd., ascertain the price of the share under Walter's model and Gordon's model.

Earnings per share Rs.20

Capitalization rate 10%

Internal Rate of Return 15%

Retention ratio 40%

Or

(b) Parvin Ltd. has 10,000 equity shares of Rs.100 each outstanding on January 1. The shares are currently quoted at Rs.180 in the market. The company intends to pay a dividend of Rs.20 per share for the current year. It belongs to a risk class whose appropriate capitalization rate (k_e) is 15%. Using MM Model and assuming no taxes, ascertain the price of the company's share

(i) When dividend is not declared

(ii) When dividend is declared

(iii) Also find out the number of shares to be issued to meet the investment needs of Rs.6,00,000 if the net income is Rs.3,00,000 and dividend is paid.

19. (a) Blue Sky Ltd., has an EBIT Rs.2,00,000. The cost of debt is 10% and the outstanding debt is Rs.9,00,000. The overall capitalization rate (k_o) is 12.5%. Calculate the total value of the firm (V) and equity capitalization rate (k_e).

Or

(b) The existing capital structure of Risk Ltd is as follows:

	Rs.
Equity shares of Rs.100 each	25,00,000
Retained earnings	15,00,000
10% preference shares	20,00,000
8% debentures	20,00,000

Company earns a return of 15% and the tax on income is 35%. Company wants to raise Rs.18,00,000 for its expansion project for which it is considering following alternatives:

(i) Issue of 14,400 equity shares at a premium of Rs.25 per share

(ii) Issue of 11% preference shares

(iii) Issue of 10% Debentures

Projected that the P/E ratios in the case of equity, preference shares and debentures financing would be 15,12 and 10 respectively. Which alternative would you consider to be the best? Give reasons for your choice.

20. (a) The two comparing proposals which require an equal investment of Rs.50,000 and are expected to generate net cash flows as under:

	Project I (Rs.)	Project II (Rs.)
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	–	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the company is 10%. The following are the present value factor of 10% p.a.

Year	P/V factor @ 10% p.a.
1	0.909
2	0.826
3	0.751

Year	P/V factor @ 10% p.a.
4	0.683
5	0.621
6	0.564

Evaluate the project proposal under net present value.

Or

(b) A Ltd is considering to invest in a project requiring a capital outlay of Rs.4,00,000. Forecast for annual net incomes after depreciation but before tax are as follows:

Year	1	2	3	4	5
Profits (Rs.)	2,00,000	2,00,000	1,60,000	1,60,000	80,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods.

(i) Payback method

(ii) Rate of return on original investment

(iii) Rate of return on average investment

(iv) NPV method taking cost of capital as 10%

(v) PI method

(vi) Internal Rate of Return method.
