81798 COMMERCE FACTORY

(Pages : 4)

Name.......................................

Reg. No.......................................

SEMESTER B.B.A. DEGREE EXAMINATION APRIL/MAY 2015

(UG-CCSS)

Core Course

BB IVB 06—FINANCIAL MANAGEMENT

ime : Three Hours

Maximum : 30 Weightage

bjective type questions. Answer all *twelve* questions :

I. Choose the correct answer :

1 Ratio of Net Income to Number of Equity Shares is known as :

(a) Price Earnings Ratio.
(b) Net Profit Ratio.
(c) Earnings per Share.
(d) Dividend per Share.

2 Which of the following is not a capital budgeting decision ?

(a) Expansion Programme.
(b) Merger.
(c) Replacement of an Asset.
(d) Inventory Level.

3 ABC Analysis is used in :

(a) Inventory Management.
(b) Receivables Management.
(c) Accounting Policies.
(d) Corporate Governance.

4 Dividend irrelevance argument of MM Model is based on :

(a) Issue of Debentures.
(b) Issue of Bonus Share.
(c) Arbitrage.
(d) Hedging.

Fill in the blanks :

5 The capital budgeting method that ignores profitability and the time value of money is ————.

6 EBIT stands for ————.

7 The formulae for calculating Financial leverage is ————.

8 Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as ————

Turn over

26

27

Match the following :—

A		B
9 Net present value	—	Capital asset.
10 Ageing schedule	—	Trading on equity.
11 Leverage	—	Receivables management.
12 Machinery	—	Time value of money.

(12 × ¼ = 3 weightage)

II. Short answer questions. Answer all *nine* questions :

13 What is Financial plan ?

14 How will you calculate dividend payout ratio ?

15 What is Marginal cost of capital ?

16 What is trading on equity ?

17 What is Factoring ?

18 How would you calculate cost of preference shares ?

19 What is meant by scrip dividend ?

20 What is the formula for calculating Minimum stock level ?

21 What is Capital gearing ?

(9 × 1 = 9 weightage)

III. Short essay or paragraph questions. Answer any *five* questions from seven :

22 Explain briefly the various sources of working capital for a business.

23 The capital structure of a ABC limited consists of equity share capital of Rs.2,00,000 (20,000 shares of Rs.10 each) and 8% debentures of Rs.1,00,000. You are required to calculate and verify the degree of financial leverages on earnings before interest and tax (EBIT) at a level of Rs. 40,000.

24 A company issues Rs. 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amounts to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before tax and after tax cost of debt assuming a tax rate of 50%.

25 What is MM approach of capital structure ? Give its salient features ?

IV

26 Discuss the meaning and scope of financial management.

27 Following information is given about materials :

Annual usage	—	Rs. 2,00,000.
Cost of placing and receiving one order	—	Rs. 80.
Annual carrying cost	—	10% of inventory value.

Find cut Economic Order Quantity.

28 There are two firms X and Y which are exactly identical except that X does not use any debt in its financing. Company Y has Rs. 20,00,000 8% debentures outstanding. Both its firms have EBIT of Rs. 6,00,000 and equity capitalization rate is 10%. Assuming the corporate tax rate as 50%, calculate the value of the firm using MM approach.

(5 × 2 =10 weightage)

IV. Essay questions. Answer any *two* questions from three :

29 Hi-Tech Ltd. plans to sell 30,000 units next year. The expected cost of goods sold is as follows :

		(Per Unit)
Raw material	–	100
Manufacturing expenses	–	30
Selling, administration and financial expenses	–	20
Selling price	–	200

The duration at various stages of the operating cycle is expected to be as follows :

Raw material stage	–	2 months
Work-in-progress stage	–	1 month
Finished stage	–	½ month
Debtor's stage	–	1 month

Assuming the monthly sales level of 2,500 units, estimate the gross working capital requirement. Desired cash balance is 5% of the gross working capital requirement, and working progress is 25% complete with respect to manufacturing expenses.

30 The director of capital budgeting of a company has asked you to analyze two proposed capit investment projects on the basis of pay-back and post-payback-period methods. Each proje has a cost of Rs.10,000.

The pattern of cash inflows is as follows :

Year	*Project* X (Rs.)	*Project* Y (Rs.)
I	6,500	3,500
II	3,000	3,500
III	3,000	3,500
IV	1,000	3,500
V	1,000	3,500

Advise as to which project should be selected and why ?

31 Discuss in detail the techniques of capital budgeting with the help of examples.

(2 × 4 = 8 weightage)