C 2107 (Pages : 4) Name.....................................

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FOURTH SEMESTER (CUCBCSS–UG) DEGREE EXAMINATION, APRIL 2021

B.B.A.

BBA IV B 06—FINANCIAL MANAGEMENT

Time : Three Hours Maximum : 80 Marks

Part A

I. Objective type questions. Answer all *ten* questions :

(A) Fill up the blanks :

1 Capital budgeting is a part of ———— decision.

2 Operating leverage helps in analysis of ———— risk.

3 Trading on equity is known as ————.

4 EPS stands for ————.

5 JIT stands for ————.

(B) State whether the following statements are True *or* False :

6 According to traditional approach, wealth maximization is the main objective of financial management.

7 Arbitrage process refers to buying a security which has low risk and selling it in a high-risk market.

8 There should be a balance between different types of ownership and creditorship securities.

9 Debit period is the length of time for which the firm grants credit.

10 Share capital is a short-term source of finance.

(10 × 1 = 10 marks)

Part B

II. Short Answer Questions. Answer any *eight* questions from ten in two *or* three sentences each :

11 What do you mean by capital budgeting ?

12 What is dividend ?

13 Define Financial Management.

14 What is operating cycle ?

Turn over

15 What do you mean by payback period ?

16 A project cost Rs. 1,00,000 and yields an annual cash inflow of Rs. 20,000 for 8 years, calculate payback period.

17 What is time value of money ?

18 R Ltd issued 4,00,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 50%. Compute the after-tax cost of debt.

19 What is ABC analysis ?

20 A firm's cost of equity (Ke) is 14%, the average income tax rate of shareholders is 20% and brokerage cost of 3% is expected to be incurred while investing their dividends in alternative securities. Compute the cost of retained earnings.

(8 × 2 = 16 marks)

Part C

III. Short Essay *or* Paragraph questions. Answer any *six* questions from eight in 150 *or* 200 words :

21 Explain the various motives for holding cash.

22 List down the limitations of MM theory or MM model of capital structure.

23 Distinguish between NPV method and IRR method.

24 What do you mean by capital structure ? Explain the various factors which determine optimum capital structure of a firm.

25 The initial cash outlay of a project is Rs. 1,00,000 and it generates cash inflows of Rs. 40,000, Rs. 30,000, Rs. 50,000 and Rs. 20,000 in the first four years. Calculate profitability index :

Years	Discount factor at 10%
1	0.909
2	0.826
3	0.751
4	0.683

26 A company has sales of Rs. 5,00,000, variable costs Rs. 3,00,000, fixed costs Rs. 1,00,000 and long term loans of Rs. 4,00,000 at 10% rate of interest. Calculate composite leverage.

27 From the following information, calculate average collection period.

	Rs.
Total sales	100,000
Cash sales	20,000
Sales return	7,000
Debtors at the end of the year	11,000
Bills Receivable	4,000
Creditors	15,000

28 A company's expected annual net operating income is Rs. 1,00,000 and it has Rs. 3,00,000, 8% debentures. The equity capitalisation rate is 10%.

Calculate the value of the firm and overall capitalisation rate. Also find out the impact on the value of the firm and overall capitalisation rate by increasing the debt component to Rs. 4,00,000 and decrease in debt Rs. 2,00,000.

(6 × 4 = 24 marks)

Part D

IV. Essay Questions. Answer any *two* questions in 600 to 800 words each :

29 Explain various functions of financial management.

30 What are the various methods of capital budgeting or methods used for evaluation of investment or project proposals ?

31 A company's capital structure consists of the following :

	Rs.
Equity Share of 100 each	20 Lakhs
Retained Earnings	10 Lakhs
9% Preference Shares	12 Lakhs
7% Debentures	8 Lakhs
Total	50 Lakhs

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs. 25 lakhs to finance its expansion program for which the following alternatives are available to it :

(i) Issue of 20,000 equity shares at a premium of Rs. 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debentures financing would be 21.4,17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why?

(2 × 15 = 30 marks)