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M – 2696

Reg. No. :

Name :

Second Semester B.B.A. Degree Examination, December 2021

Career Related First Degree Programme under CBCSS

Group 2(b)

Core Course

BM 1243 : FINANCIAL MANAGEMENT

(2020 Admission Regular)

Time : 3 Hours

Max. Marks : 80

SECTION – A

Answer **all** questions in **1** or **2** sentences each. Each question carries **1** mark.

1. Define financial management.
2. Write a short note on profit maximization decision criterion.
3. What is cost of capital?
4. Define explicit cost.
5. Define capital structure.
6. What do you mean by internal rate of return method?
7. What do you understand by sweat equity?
8. What do you mean by scrip dividend?
9. Name two constituents of current assets.
10. What do you mean by inventory?

(10 × 1 = 10 Marks)

P.T.O.

SECTION – B

Answer **any eight** questions in not exceeding **1** paragraph each. Each question carries **2** marks.

11. Give a short note on traditional approach of financial management.
12. Distinguish between systematic risk and unsystematic risk.
13. What do you understand by 'point of indifference'?
14. What do you mean by degree of financial leverage?
15. What do you mean by floatation costs?
16. What are the limitations of Payback Period Method?
17. What are the merits of ARR?
18. Write a short note on NPV.
19. Give any two assumptions of Miller and Modigliani 'dividend irrelevance theorem'?
20. What is meant by stable dividend policy?
21. What is gross working capital?
22. What do you understand by ABC analysis?
23. What do you mean by JIT inventory control system?
24. What are the major motives for holding cash?
25. Compute pay-back period from the following:

Initial cash outlay	Rs.
Annual cash inflow (after tax but before depreciation)	50,000
Estimated life	10,000
	8 years

26. A company issues 10,000 10% Preference Shares of Rs.100 each. Cost of issue is Rs.2 per share. Calculate cost of preference capital if these are issued :
- (a) at par, and
 (b) at a premium of 10%.

(8 × 2 = 16 Marks)

SECTION – C

Answer **any six** questions in not exceeding **120** words. Each question carries **4** marks.

27. What do you understand by financial decisions? Discuss the major financial decisions.
28. Write a short note on the significance of cost of capital.
29. What are the essential features of an optimal capital mix?
30. What are the criticisms levelled against Walter's Model?
31. What are the major steps involved In capital budgeting.
32. Name the various kinds of working capital.
33. Bring out the significance of adequate working capital for a business concern.
34. A simplified income statement of Blackberry Ltd. is given below. Calculate and interpret its degree of operating leverage.

Income statement of Blackberry Ltd. for the year ended 31st March 2012

	Rs.
Sales	<u>10,50,000</u>
Variable Cost	7,67,000
Fixed Cost	<u>75,000</u>
EBIT	2,08,000

	Rs.
Interest	1,10,000
Taxes (30%)	29,400
Net Income	<u>68,600</u>

35. A project requires an investment of Rs.5,00,000 and has a scrap value of Rs.20,000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs.40,000, Rs.60,000, Rs.70,000, Rs.50,000 and Rs.20,000. Calculate the average rate of return on the investment.

36. The following information relating to a type of raw material is available:

Annual Demand	2,000 units
Unit Price	Rs. 20
Ordering Cost per order	Rs. 20
Storage Cost	2% p.a.
Interest Rate	8% p.a.
Lead time	Half month

Calculate Economic Order Quantity.

37. Calculate Debtors Turnover Ratio from the following information:

	Rs.
Sundry Debtors as on 1-1-2020	7,00,000
Sundry Debtors as on 31-12-2020	9,00,000
Bills Receivable as on 1-1-2020	2,00,000
Bills Receivable as on 31-12-2020	3,00,000
Total Sales for the year 2020	70,00,000
Sales Return	2,00,000
Cash Sales for the year 2020	10,00,000

38. Prepare an estimate of working capital requirement from the following information of a trading concern:

(a) Projected annual sales	1,00,000 units
(b) Selling price	Rs. 8 per unit
(c) % of net profit on sales	25%
(d) Average credit period allowed to customers	8 weeks
(e) Average credit period allowed by suppliers	4 weeks
(f) Average stock holding in terms of sales requirement	12 weeks
(g) Allow 10% for contingencies	

(6 × 4 = 24 Marks)

SECTION – D

Answer **any two** questions in not exceeding **4** pages each. Each question carries **15** marks.

39. Discuss in detail the scope and importance of financial management.

40. Discuss the factors determining the capital structure.

41. Calculate

(a) the operating leverage and

(b) financial leverage from the following data under situations I and II and financial plans, A and B.

Installed capacity : 4,000 units

Actual production and sales: 75 percent of the capacity

Selling price: Rs.30 per unit.

Variable cost: Rs.15 per unit.

Fixed cost:

Under situation I: Rs.15,000

Under situation II: Rs.20,000

Capital structure:

	<i>Financial Plan</i>	
	A	B
Equity	Rs.10,000	Rs.15,000
Debt (20% interest)	10,000	5,000
	<u>20,000</u>	<u>20,000</u>

42. A company has an investment opportunity costing Rs.40,000 with the following expected net cash flow after taxes and before depreciation.

Year	Net Cash Flow Rs.
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital determine the following:

- Payback period
- Net present value at 10% discount factor.

Note:

Year	1	2	3	4	5	6	7	8	9	10
Present value of Re.1 at 10% discount rate	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386

43. The EPS of Messrs. PP Ltd. are Rs. 25 and the rate of capitalisation applicable to the company is 14%. Rate of interest is 14%. Compute the market value of the company's share if the payout is:
- 20%,
 - 50% and
 - 70%. What is the optimum payout?
44. A company is expecting to have Rs.2,50,000 cash on hand on 1st April, 2020, and it requires you to prepare an estimate of cash position during the three months, April — June 2020.

Month	Sales (Rs.)	Purchases (Rs.)	Wages (Rs.)	Expenses (Rs.)
February	7,00,000	4,00,000	80,000	60,000
March	8,00,000	5,00,000	80,000	70,000
April	9,20,000	5,20,000	90,000	70,000
May	10,00,000	6,00,000	1,00,000	80,000
June	12,00,000	5,00,000	1,20,000	90,000

Additional information:

- Period of credit allowed by suppliers is two months.
- 25% of sale is for cash and the period of credit allowed to customers for credit sale is one month.
- Delay in payment of wages and expenses is one month.
- Income tax Rs.2,50,000 is to be paid in June 2021.

(2 × 15 = 30 Marks)

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M – 2691

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Group 2(b) Core Course

BM 1243 : FINANCIAL MANAGEMENT

(2017-2019 Admission)

Time : 3 Hours

Max. Marks : 80

PART – A

- I. Answer **all** questions in **one** or **two** sentences. Each question carries 1 mark.
1. Why is finance remarked as life blood of business?
 2. How finance is different from account?
 3. What is the operational meaning of cost of capital?
 4. What do you understand by cost of equity?
 5. What do you mean by cost of preference shares?
 6. What is NPV?
 7. What is profitability index?
 8. What is the decision rule in NPV?

P.T.O.

9. What is gross working capital?
10. What are current assets?

(10 × 1 = 10 Marks)

PART – B

II. Answer **any eight** questions not exceeding **one** paragraph. Each question carries **2** marks.

11. Define time value of money.
12. What do you mean by annuity?
13. Define over capitalisation.
14. What do you mean by capital structure?
15. What is realised yield method?
16. What do you mean by book value weights?
17. What is the decision rule in IRR?
18. What is discounted payback period method?
19. What do you mean by dividend decisions?
20. What is retained earnings?
21. What is net working capital?
22. Explain operating cycle concept.

(8 × 2 = 16 Marks)

PART – C

- III. Answer **any six** questions not exceeding **one** page. Each question carries **4** marks.
23. Explain the valuation concepts.
 24. Explain the major classifications of risks.
 25. X Ltd has issued 20000 equity shares of Rs.100 each as fully paid. The present market price of these shares is Rs.160 per share. The company has paid a dividend of Rs. 10/share. Find out cost of equity capital.
 26. Explain the objectives of optimum capital structure.
 27. Explain the assumptions in net operating income approach.
 28. Explain various traditional capital budgeting techniques.
 29. A project with an outlay of Rs.12,000, Rs.2,000, Rs.3,000, Rs.4,000, Rs.6,000 respectively in first, second, third and fourth year. Calculate payback period.
 30. Explain various types of dividend policy.
 31. Define the kinds of working capital.

(6 × 4 = 24 Marks)

PART – D

- IV. Answer **any two** questions not exceeding **four** page. Each question carries **15** marks.
32. Explain the functions of financial manager.
 33. Discuss the factors determine capital structure.
 34. Explain the dividend theories.
 35. Explain capital structure theories.

(2 × 15 = 30 Marks)