

Reg. No. :

Code No. : 30432 E Sub. Code : AMBA 51

B.B.A. (CBCS) DEGREE EXAMINATION, APRIL 2023.

Fifth Semester

Business Administration – Core

FINANCIAL MANAGEMENT

(For those who joined in July 2020 only)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Financial management is mainly concerned with _____.
 - (a) Acquiring financial resources for firm's activities
 - (b) Utilizing financial resources for firms activities
 - (c) Procurement of funds of the enterprise
 - (d) All of the above

2. Time preference for money prevails because
- Goods will become dearer after a time
 - The worth of money in hand is more than the same amount which we received after a particular period
 - Money facilitates purchase of necessary amenities in time
 - Goods will become cheaper after a time period
3. The mix of debt and equity in a firm is referred to as a firm's _____.
- Primary capital
 - Capital composition
 - Cost of capital
 - Capital structure
4. _____ is the price at which the share is traded in the market.
- Market value
 - Face value
 - Maturity value
 - Redemption value
5. When _____ is greater than zero the project should be accepted?
- Internal Rate of Return
 - Profitability Index
 - Net Present Value
 - Modified Internal Rate of return

6. _____ analysis is done to ascertain financial viability of a project.
- Network
 - Financial
 - Techno-economic
 - Investment
7. Which is the type of dividend
- Cash Dividend
 - Interest
 - Profit cum reserve
 - Flexible capital
8. The one of the following is the relevance theory
- Gordon
 - Walter
 - Residual
 - Both (a) and (b)
9. Gross working capital is based on _____.
- Accrual concept
 - Money measurement concept
 - Going concern concept
 - Realization concept
10. Which of the following is not an application of working capital?
- Day to day expenditure of business
 - Current obligations for payment
 - Expenditure in the usual course of business
 - Expenditure to acquire capital

PART B — (5 × 5 = 25 marks)

Answer ALL questions, by choosing either (a) or (b).
Each answer should not exceed 250 words.

11. (a) How would you view financial management as a science or an art?

Or

- (b) Given the time value of money as 10%, you are required to find out the present value of future cash flows that will be received over next four years

Year	1	2	3	4
Cash inflows (Rs.)	1,000	2,000	3,000	4,000

12. (a) Explain the concept of cost of capital.

Or

- (b) X Ltd is expecting an annual EBIT of Cash inflows (Rs.) 1 Lakh. The company has Cash inflows (Rs.) 4.00 lakhs in 10 % debentures. The cost of equity capital is 12.5%. The company desires to redeem debentures of Rs. 1.00 lakh by issuing additional equity shares of Rs. 1.00 lakh. You are required to calculate the total value of the firm. Also state the overall cost of capital.

13. (a) Distinguish between Net Present Value method and Internal Rate of Return method of capital budgeting.

Or

- (b) The directors of Alpha Limited are contemplating the purchase of a new machine to replace a machine which has been in operation in the factory for the last 5 years., you are required to submit your recommendations based on the following information:

	Existing Machine	New Machine
Initial cost	Rs. 40,000	Rs. 60,000
Estimated life of machine	10 years	10 Years
Machine hours per annum	2,000 hours	2,000 hours
Wages per running hour	Rs. 3	Rs. 5.25
Power per annum	Rs. 2,000	Rs. 4,500
Consumable stores per annum	Rs. 2,000	Rs. 4,500
Other expenses per annum	Rs. 8,000	Rs. 9,000
Cost of materials per unit	Rs. 0.50	Rs. 0.50
Number of units produced per hour	24	36
Selling price per unit	Rs. 1.25	Rs. 1.25

Depreciation has to be charged according to straight line method.

14. (a) What are the considerations to be kept in mind when a company issues right shares?

Or

- (b) The following are the details regarding Hema & Co.

$r = 8\%$, $K = 10\%$, $E = \text{Rs. } 10$, you are required to calculate the effect of dividend payments on the profits of the company under the following different situations

- (i) When no dividend is paid
- (ii) When dividend is paid at Rs. 4 per share
- (iii) When dividend is paid at Rs. 8 per share

15. (a) State the impact of inadequate working capital.

Or

- (b) A proforma cost sheet of a company provides the following particulars:

Elements of cost material 40%; Direct labour 20%; overheads 30%. It is proposed to maintain a level of activity of 50,000 units. Selling price is Rs. 5 per unit.

Raw materials are expected to remain in stores for an average period of one month. Material will be in process on average of half a month. Finished goods are required to be in stock for an average period of one month. Credit allowed to debtors to two months. Credit allowed by suppliers is one month.

You are required to prepare the schedule of changes in working capital.

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PART C — (5 × 8 = 40 marks)

Answer ALL questions, by choosing either (a) or (b)
Each answer should not exceed 600 words.

16. (a) Financial management is nothing but managerial decision making on asset mix, capital mix and profit allocation"- Explain.

Or

- (b) Explain the relevance of time value of money in financial decisions.

17. (a) Show the similarity of net operating income (NOI) approach and MM approach on the issue of optimum capital structure.

Or

- (b) XY Ltd., has assets of Rs. 1,60,000 which have been financed with Rs. 52,000 of debt and Rs. 90,000 of equity and a general reserve of Rs. 18,000. The firm's total profit after interest and taxes for the year ended 31st March 2022, were Rs. 13,500. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs. 100 each selling at a market price of Rs. 120 per share. What is the weighted average cost of capital?

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18. (a) Explain about Internal Rate of Return (IRR) method and state its merits in evaluating capital expenditure.

Or

- (b) A company is considering investing in a project requiring a capital outlay of Rs. 2,00,000. Forecast for annual income after depreciation but before tax is as follows

Year	1	2	3	4	5
Cash flows (in Rs.)	1,00,000	1,00,000	80,000	80,000	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to calculate Discounted payback period.

- (i) Pay back period method
(ii) Rate of return on average investment method.
19. (a) Discuss Walter Model and Gordon Model of share valuation via-dividend policy.

Or

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- (b) Following are the details regarding Beta Ltd. $r = 10\%$; $K_e = 10\%$; $E = \text{Rs. } 8$. Calculate the value of the equity share of each of these companies applying Walter's formula when dividend pay-out ratio (D/P ratio) is:

- (i) 50 %,
(ii) 75%,
(iii) 25 %.

20. (a) Explain the various reasons behind holding of cash by the companies although idle cash earns no return.

Or

- (b) Accurate Ltd, has planned to sell 6,00,000 units of output in the coming year. The cost structure of the company's product for the desired level of production is given below

Raw material Rs. 30/unit

Manufacturing expenses Rs. 10/unit

Other Overheads Rs. 25/unit

Total Cost Rs. 65/unit

Selling Price Rs. 80/ unit

Profit Rs. 15

Examination of past trend reveals

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- (i) Raw materials are held in stock for 1 month
- (ii) Work-in -Progress inventory is equal to half month's production
- (iii) Finished good remain in the warehouse for a month
- (iv) Three month's credit is allowed to the debtors
- (v) Manufacturing expenses are expected to occur evenly during the year.

You are required to (1) Calculate the investment in various assets and (2) Estimate the gross working capital requirement if the desired cash balance is 5 % of gross working capital.
