

(8 pages)

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Code No. : 30216 E Sub. Code : SMBA 62

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

Sixth Semester

Business Administration — Core

FINANCIAL MANAGEMENT

(For those who joined in July 2017-2019)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. The primary goal of the financial management is \_\_\_\_\_
  - (a) To maximize the return
  - (b) To minimize the risk
  - (c) To maximize the wealth of owners
  - (d) To maximize profit

2. Market value of the shares are decided by \_\_\_\_\_
  - (a) the respective companies
  - (b) the investment market
  - (c) the government
  - (d) shareholders
3. The cost of equity share or debt is known as \_\_\_\_\_
  - (a) The specific cost of capital
  - (b) The related cost of capital
  - (c) The burden on the shareholder
  - (d) None of the above
4. In weighted average cost of capital, an organization can affect its cost of capital through \_\_\_\_\_
  - (a) The policy of investment
  - (b) The policy of capital structure
  - (c) The policy of dividends
  - (d) All the above
5. \_\_\_\_\_ is the ratio of net operating income before fixed charges to net operating income after fixed charges
  - (a) Financial Leverage
  - (b) Operating Leverage
  - (c) Operation leverage
  - (d) Fiscal Leverage

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6. There is no operating leverage if there is no \_\_\_\_\_
  - (a) Debt
  - (b) Sales
  - (c) Fixed cost
  - (d) Earnings Per Share
7. Which of these is not a part of capital structure?
  - (a) Equity Shares
  - (b) Debentures
  - (c) Short-term borrowings
  - (d) Bonds
8. The main aim of capital structure is to \_\_\_\_\_
  - (a) Maximize owner's return and minimize the cost of capital
  - (b) Maximize owner's return and maximize the cost of capital
  - (c) Minimize owner's return and minimize the cost of capital
  - (d) Minimize owner's return and maximize the cost of capital
9. Capital budgeting Decisions are based on \_\_\_\_\_
  - (a) Incremental Cash Flows
  - (b) Incremental Profit
  - (c) Incremental Assets
  - (d) Decremental Assets

10. Capital Budgeting is a part of \_\_\_\_\_
  - (a) Investment Decision
  - (b) Working Capital Management
  - (c) Marketing Management
  - (d) Capital Structure

PART B — (5 × 5 = 25 marks)

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

Each answer should not exceed 250 pages.

11. (a) Explain the sources of finance.  
Or  
(b) Mention the scope of financial management.
12. (a) Assume that a company's share is currently selling for Rs.134. Current dividend are Rs.3.50per share and are expected to grow at 15% over the next 6 years and then at a rate of 8% for ever. Find the cost of equity.  
Or  
(b) Are retained earnings less expensive than the new issue of ordinary shares? Give your views.

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13. (a) Examine the Dividend theories.

Or

- (b) Describe operating leverage. Illustrate the impact of operating leverage on profits.

14. (a) Rubika Ltd., EBIT is Rs. 5,00,000. The company has 10%, Rs. 20 lakh debentures. The equity capitalization rate is 16%. Calculate: (i) Market value of equity and value of firm (ii) Overall cost of capital.

Or

- (b) Explain the assumptions and implications of the NI approach and the NOI approach.

15. (a) Explain the merits and demerits of ARR method.

Or

- (b) A project costs Rs. 81,000 and is expected to generate net cash inflow of Rs.40,000, Rs. 35,000 and Rs. 30,000 over its life of 3 years. Calculate the Internal Rate of Return of the project.

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18. (a) Explain the nature of the factors which influence the dividend policy of a firm.

Or

- (b) KKL Ltd., decides to use two financial plans and they need Rs. 5,000 for total investment.

Particulars	Plan A	Plan B
Debenture (interest at 10%)	40,000	10,000
Equity share (Rs.10 each)	10,000	40,000
Total investment needed	50,000	50,000
Number of equity shares	4,000	1,000

The earnings before interest and tax are assumed at Rs. 5,000 and 12,500. The tax rate is 50%. Calculate the EPS.

19. (a) Examine the factors determining capital structure.

Or

- (b) There are two firms 'A' and 'B' which are exactly identical except that A does not use any debt in its financing, while B has Rs.2,50,000, 6% Debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75000 and the equity capitalization rate is 10%. Assuming the corporate tax is 50%: calculate the value of the firm.

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PART C — (5 × 8 = 40 marks)

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

Each answer should not exceed 600 pages.

16. (a) Compare and Contrast between Profit and wealth Maximization.

Or

- (b) Elucidate the objectives of Financial Management.

17. (a) How to compute cost of capital? Explain.

Or

- (b) A firm has the following capital structure and after-tax costs for the different sources of funds used:

Source to Finance	Amount (Rs.)	Proportion (%)	After tax
Date	12,000	20	4
Preference shares	15,000	25	8
Equity shares	18,000	30	12
Retained earnings	15,000	25	11
	<u>60,000</u>	<u>100</u>	

Calculate weighted average cost of capital.

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20. (a) Discuss the capital budgeting process.

Or

- (b) Project has the following patterns of cash flows:

Year	Cash Flow (Rs. In Lakh)
0	(10)
1	5
2	5
3	3.08
4	1.20

What is the IRR of this project?

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