

**B.B.A. DEGREE END SEMESTER EXAMINATION OCTOBER 2017**  
**SEMESTER – 3: BACHELOR OF BUSINESS ADMINISTRATION (CORE COURSE)**  
**COURSE: 16U3CRBBA9, FINANCIAL MANAGEMENT**  
*(For Regular - 2016 Admission)*

Time: Three Hours

Max Marks: 75

**Part - A**

*Answer all questions. Each question carries 1 mark.*

1. Define working capital.
2. What is stable dividend policy?
3. What is combined leverage?
4. What do you mean by 'Payback period'?
5. What is a Cash Flow Statement
6. What do you mean by optimal capital structure?

(1 x 6 = 6)

**Part - B**

*Answer any seven questions. Each question carries 2 mark*

7. What are the sources of working capital?
8. Distinguish between implicit cost and explicit cost.
9. What is meant by investment decision?
10. Explain briefly the EBIT- EPS analysis.
11. What are the sources of cash inflow?
12. What are the different forms of dividend?
13. What is weighted average cost of capital?
14. What do you mean by retention ratio?
15. Differentiate between capital structure and financial structure.
16. A company issued 10,000, 10% preference shares of ₹ 100 each redeemable after 10years at premium of 5%. The cost of issue is ₹ 2 per share. Calculate the cost of preference capital.

(7 x 2 = 14)

**Part -C**

*Answer any five questions. Each question carries 5 marks.*

17. Define financial management. What are its main functions?
18. What are the factors determining cost of capital?
19. What are the arguments in favour of wealth maximisation goal?
20. A company issues ₹ 20,00,000, 10% redeemable debentures of ₹100 each at a discount of 5%. The cost of flotation amounts to ₹ 50,000. The debentures are redeemable after 8 years. Calculate after tax cost of debt. Assume tax rate is 55%.
21. Explain the dangers of redundant working capital.
22. What are the merits and demerits of preference shares?

23. The project involves a total initial investment of ₹ 2,00,000 and it is estimated to generate future cash inflows of ₹ 38,000, 25,000, 30,000, 22,000, 40,000, 25,000, 48,000 and 26,000 in its last year. Calculate payback period.
24. The capital structure of a company consist of the following securities:  
 Equity share capital of ₹ 10 each ₹ 1,00,000  
 8% debentures ₹ 1,00,000  
 10% preference shares ₹ 1,00,000  
 The amount of operating profit is ₹ 60,000. The tax rate applicable to the company is 50%.  
 You are required to calculate the financial leverage of the company and EPS. (5 × 5 = 25)

#### Part-D

Answer any two question. Each question carries 15 marks.

25. What are the determinants of dividend policy?
26. A proforma cost sheet of a company provides the following particulars:

Elements of cost sheet		Per unit
Raw materials		₹
Direct labour		80
Overheads		30
	Total cost	60
Profit		170
	Selling price	30
		200

#### Additional information

- Raw materials are in stock on an average for one month.
- Work-in-progress, on an average for half a month.
- Finished goods are in stock on an average for one month.
- Credit allowed by suppliers is one month.
- Credit allowed to customers is two months.
- Lag in payment of wages is 1 ½ weeks.
- Lag in payment of overhead expenses is one month.
- One –fourth (¼) of the output is sold against cash.
- Cash in hand and at bank is expected to be ₹ 25,000.

You are required to prepare a statement showing the working capital needed to finance level of activity of 1,04,000 units of production.

You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

27. ABC Ltd has the following capital structure:

Equity share capital (50,000 shares of ₹ 10 each)	5,00,000
12% preference share capital	5,00,000
10% debenture	<u>2,00,000</u>
Total	<u>12,00,000</u>

The equity shares of the company are quoted at ₹ 102 and the company is expected to declare a dividend of ₹ 9 per share next year. The company has registered a dividend growth rate of 5%. Assuming tax rate applicable is at 50%. Calculate the overall cost of capital.

28. From the following information, you are required to prepare the flow statement of Classic Ltd. for the year ended 31<sup>st</sup> march 2016 using direct method.

Balance sheet as on 31<sup>st</sup> March 2016

Liabilities	₹ 2015	₹ 2016	Assets	₹ 2015	₹ 2016
Share Capital	70,000	70,000	Fixed Assets	50,000	91,000
Secured loan	----	40,000	Inventory	15,000	40,000
Creditors	14,000	39,000	Debtors	5,000	20,000
Tax payable	1,000	3,000	Cash	20,000	7,000
Profit and loss A/c	7,000	10,000	Prepaid expenses	2,000	4,000
	92,000	1,62,000		92,000	1,62,000

Profit and Loss Account for the year ended 31<sup>st</sup> March 2016

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Opening Stock	1,50,000	Sales	1,00,000
Purchases	98,000	Closing inventory	40,000
Gross profit c/d	27,000		
	1,40,000		1,40,000
General expenses	11,000	Gross profit c/d	27,000
Depreciation	8,000		
Provision for tax	4,000		
Net profit c/d	4,000		
	27,000		27,000
Dividend(interim)	1,000	Balance b/d	7,000
Balance c/d	10,000	Net profit b/d	4,000
	11,000		11,000

(15 x 2 = 30)