

**B. B. A. DEGREE END SEMESTER EXAMINATION OCTOBER 2018****SEMESTER – 3: BACHELOR OF BUSINESS ADMINISTRATION (CORE COURSE)****COURSE: 16U3CRBBA9, FINANCIAL MANAGEMENT***(For Regular - 2017 Admission and Supplementary / Improvement 2016 Admission)*

Time: Three Hours

Max Marks: 75

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

1. What is dividend Pay-out ratio?
2. What is operating leverage?
3. What do you mean by 'Average Rate of Return'?
4. Define financial management.
5. What do you mean by optimal capital structure?
6. What do you mean by operating cycle?

(1 x 6 = 6)

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

7. Distinguish between seasonal working capital and special working capital.
8. What is weighted average cost of capital?
9. What is meant by capital budgeting?
10. Briefly explain the impact of financial leverage.
11. What are the different forms of dividend?
12. What are the uses of preparing a cash flow statement?
13. A company issued 10,000, 10% preference shares of Rs. 100 each redeemable after 10 years at a premium of 5%. The cost of issue is Rs. 2 per share. Calculate the cost of preference capital.
14. Differentiate between capital structure and financial structure.
15. Explain briefly the EBIT- EPS analysis.
16. What are the different types of cost of capital?

(2 x 7 = 14)

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

17. What is finance function? Explain its importance in overall process of management.
18. A company issues Rs. 20,00,000 10% redeemable debentures of Rs. 100 each at a discount of 5%. The cost of flotation amounts to Rs. 50,000. The debentures are redeemable after 8 years. Calculate after tax cost of debt. Assume tax rate is 55%.
19. What are the consequences of inadequate working capital?

20. What are the merits and demerits of preference shares?
21. What are the determinants of dividend policy?
22. The net income reported in the income statement for the year was Rs. 1, 10,000 and depreciation of fixed assets for the year was Rs. 44,000. The balances of current assets and current liabilities at the beginning and end of the year are as follows. Calculate cash from operating activities.

	End of the year Amount (Rs.)	Beginning of the year Amount (Rs.)
<b>Current items</b>		
Cash	1,30,000	1,40,000
Debtors	2,00,000	1,80,000
Inventories	2,90,000	3,00,000
Prepaid expenses	15,000	16,000
Account payable	1,02,000	1,16,000

23. Project A has an initial investment of Rs. 1,00,000 and a uniform returns of Rs. 20,000. Project B too has an initial investment of Rs. 1,00,000, but the inflows over project life are 20,000, 35,000, 30,000, 35,000 and 40,000. Calculate payback period and select the project.
24. From the following data relating to two companies, calculate the degree of operating leverage and advice which company is more riskier:

	A Ltd	B Ltd
Sales	25,00,000	3,00,000
Variable cost	25% of sales	25% of sales
Fixed cost	8,00,000	2,50,000

(5 × 5 = 25)

**PART D***Answer any two question. Each question carries 15 marks.*

25. What is capital structure? What are the factors affecting capital structure?
26. A proforma Cost Sheet of a company provides the following particulars:  
Elements of Cost:  
Raw materials ... 40%  
Labour ... 10%  
Overheads ... 30%

The following further particulars are available:

- (a) Raw materials are to remain in stores on an average - 6 weeks.
- (b) Processing time- 4 weeks.
- (c) Finished goods are required to be in stock on an average period - 8 weeks.
- (d) Credit period allowed to debtors, on average 10 weeks.
- (e) Lag in payment of wages -2 weeks.
- (f) Credit period allowed by creditors - 4 weeks.
- (g) Selling price-Rs.50 per unit.

You are-required to prepare an estimate of working capital requirements adding 10 % margin for contingencies for a level of activity of 1,80,000 unit of production.

27. X Ltd has the following capital structure:

Equity share capital (60,000 shares of ₹ 10 each)	6,00,000
15% preference share capital	6,00,000
9% debenture	<u>3,00,000</u>
Total	<u>15,00,000</u>

The equity shares of the company are quoted at Rs. 105 and the company is expected to declare a dividend of Rs. 10 per share next year. The company has registered a dividend growth rate of 3%. Assuming tax rate applicable is at 50%. Calculate the overall cost of capital.

28. Calculate the average rate of return for projects A & B from the following :

	Project A	Project B
Investments	Rs. 20,000	30,000
Expected life (No salvage)	4 years	5 years
Projected Net Income (after interest, depreciation & taxes)		

Year	Project A (Rs.)	Project B (Rs.)
1	2,000	3,000
2	1,500	3,000
3	1,500	2,000
4	1,000	1,000
5	.....	1,000
	6,000	10,000

If the required rate of return is 12% which project should be undertaken?

(15 x 2 = 30)

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