

(8 pages)

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B.B.A. (CBCS) DEGREE EXAMINATION, APRIL 2021.

Sixth Semester

Business Administration — Main

FINANCIAL MANAGEMENT

(For those who joined in July 2017 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. The job of a finance manager is confined to

- (a) Raising of funds
- (b) Management of cash
- (c) Effective utilization of funds
- (d) None of the above

2. Traditional approach confines finance only to _____
- (a) raising (b) mobilizing
(c) utilizing (d) financing
3. The cost of capital of a long term debt is generally _____ the owned funds.
- (a) Lower than (b) Equal to
(c) Higher than (d) More or less
4. Cost of retained earnings is equal to _____.
- (a) Cost of equity (b) Cost of debt
(c) Cost of term loans (d) Cost of bank loan
5. The measure of business risk is _____
- (a) Operating leverage
(b) Financial leverage
(c) Total leverage
(d) Working capital leverage
6. The most appropriate dividend policy is the payment of _____ dividend per share consent.
- (a) Constant (b) Variable
(c) Higher (d) Lower

7. Which of the following is not a feature of an optimal capital structure?
- (a) Safety
 - (b) Flexibility
 - (c) Control
 - (d) Solvency
8. The modigliani-Miller Approach is similar to _____ approach.
- (a) Net Income
 - (b) Net Operating Income
 - (c) Traditional
 - (d) None of the above
9. This determines the maximum rate of interest that a firm can afford to pay on the borrowings for a particular project.
- (a) Net present value
 - (b) Internal rate of return
 - (c) Profitability index
 - (d) None of the above
10. The length of the time needed to regain the original investment
- (a) Pay-back period
 - (b) Internal rate of return
 - (c) Profitability index
 - (d) None of the above

PART B — (5 × 5 = 25 marks)

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

Each answer should not exceed 250 words.

11. (a) What are the important functions of financial management?

Or

- (b) What are the objectives of financial management?

12. (a) What are the features of cost of capital?

Or

- (b) A company has 10% perpetual debt of Rs. 1,00,000. The tax rate is 35%. Determine the cost capital (before as well as after tax) assuming the debt is issued at (i) par, (ii) 10% discount and (iii) 10% premium.

13. (a) Write down the significance of leverage.

Or

- (b) The earnings per share of a company is Rs. 8 and the rate of capitalization applicable is 10%. The company has before it, an option of adopting 50% dividend pay out ratio. Compute the market price of the company's quoted shares as per Walter's Model if it can earn a return of (i) 15, (ii) 10 and (iii) 5 per cent on its retained earnings.

14. (a) What are the features of a sound capital structure?

Or

- (b) A company expects a net income of Rs. 80,000. It has Rs. 2,00,000, 8% debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the Net Income Approach.

15. (a) What are the salient features of capital budgeting?

Or

- (b) An equipment requires an initial investment of Rs. 36,000. The annual cash flow is estimated at Rs. 11,200 for 5 years. Calculate the Internal Rate of Return.

PART C — (5 × 8 = 40 marks)

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

Each answer should not exceed 600 words.

16. (a) Distinguish between profit maximization and wealth maximization.

Or

- (b) Discuss the different sources of short term finance.

17. (a) Explain the different approaches to calculate cost of equity capital.

Or

- (b) SK Limited has obtained funds from the following sources, the specific cost are also given against them.

Source of funds	Amount (Rs.)	Cost of capital
Equity shares	30,00,000	15%
Preference share	8,00,000	8%
Retained earnings	12,00,000	11%
Debentures	10,00,000	9% (before tax)

You are required to calculate weighted average cost of capital. Assume that corporate tax rate is 30%.

18. (a) Discuss the Walter Model of share valuation vis-à-vis dividend policy.

Or

- (b) Kavin brothers has sale of Rs. 10,00,000, variable costs Rs. 7,00,000 and fixed costs Rs. 23,00,000 and debt of Rs. 5,00,000 at 10% rate of interest. Calculate operating, financial and combined leverages. If the firm wants to double its earning before interest and tax (EBIT) how much a rise in sales would be needed on a percentage basis?

19. (a) Discuss the factors determining the capital structure of a firm.

Or

- (b) There are two companies A and B. Company A is without debt capital, whereas company B has 6% debt of Rs. 6 crores. The equity capitalization rate is 10% and the corporate tax applicable to both the companies is 60%. Both the firms earn an EBT of Rs. 2,040 crores each. Companies A and B are identical in their volume of business. You are required to calculate the market value of the two companies.

20. (a) Discuss the methods used for evaluating and ranking of investment proposals.

Or

- (b) From the following information advise the management as to which project is preferable, based on the pay-back period. Two project, viz, X and Y requires an investment of Rs. 30,000 each. The standard cut-off period for the company is 5 years.

(Net profit before depreciation and after tax)

	Project X	Project Y
	(Rs.)	(Rs.)
Year 1	10,000	8,000
Year 2	10,000	10,000
Year 3	4,000	12,000
Year 4	6,000	6,000
Year 5	8,000	7,000
