



Reg. No. :

Name :

Third Semester B.B.A. Degree Examination, December 2013
(Career Related First Degree Programme under CBCSS)
Group 2(b)
Core Course
Common for BM 1343 : FINANCIAL MANAGEMENT (2011 Admn.)
BM 1344 : FINANCIAL MANAGEMENT (2010 Admn.)

Time : 3 Hours

Max. Weightage : 30

SECTION – A

This Section consists of **four** bunches of **four** questions **each**. **Each** bunch carries a Weight of **1**. Answer **all** questions.

- I. 1) With continuous compounding at 8 percent for 20 years, what is the approximate future value of a \$ 20,000 initial investment
- a) \$ 52,000 b) \$ 93,219 c) \$ 99,061 d) \$ 915,240
- 2) The conservative firm will utilize
- a) a high degree of operating leverage
- b) a low degree of operating leverage
- c) high fixed costs
- d) a higher profit margin
- 3) The key to current asset planning is
- a) ensuring that the firm remains current on its obligation
- b) maintaining an inventory surplus to ensure liquidity
- c) forecasting sales accurately and matching production with the forecast
- d) maintaining the proper rate of asset growth
- 4) In designing working capital policy, the financial manager is concerned with yield curve and
- a) dividend policy
- b) balance of trade figures
- c) the relative volatility of short and long term rates
- d) the term structure of interest rates



II. Choose the most appropriate answer from the following :

- 5) What is an example of a capitalized expenditure ?
- a) Funds spent last year to renovate a building that could be used to house a new project that is currently being evaluated
 - b) Installation costs necessary to use a machine that was just purchased
 - c) The necessary increase in inventories needed to support a project that is currently being implemented
 - d) All of the above are examples of capitalized expenditure
- 6) Dividends may be considered relevant because
- a) they increase the investor's overall return
 - b) a higher return will be earned than with retained earnings
 - c) they are preferred by investors in higher tax brackets
 - d) they resolve uncertainty in the minds of investors
- 7) Stock dividend
- a) represents a distribution of additional shares to common shareholders
 - b) differs from a stock split largely in size
 - c) normally has no real value to the investor
 - d) all of the above are correct
- 8) The existence of which of the following on the balance sheet generates tax advantages that directly influence the capital structure of the firm.
- a) a large proportion of fixed assets
 - b) long-term debt
 - c) retained earnings
 - d) All of the above

III. Fill in the blanks choosing the suitable words from those given in brackets :

- 9) _____ is concerned with the maximization of a firm's earnings after taxes.
(Shareholder wealth maximization, Profit maximization, Stakeholder maximization, EPS maximization)
- 10) In finance we refer to the market for short-term government and corporate debt securities as the _____ market.
(Money, Capital, Primary, Secondary)
- 11) In proper capital budgeting analysis we evaluate incremental _____ cash flows.
(Accounting, Operating, Before-tax, Financing)
- 12) The discount rate used to determine the present value of a stream of expected future cash flows is referred to as the _____.
(Net operating income, Capitalization rate, Capital structure, Yield on the company's market value of common equity)



IV. Match the following :

- | | |
|--------------------------|---------------------------------------|
| 13) Cash management | I) Identify appropriate credit policy |
| 14) Inventory management | II) Utilizing a bank overdraft |
| 15) Debtor's management | III) Lowering lead time in production |
| 16) Short term financing | IV) Reduces cash holding cost |
| | V) Working capital deficit |

SECTION – B

Write short answers to **eight** questions in **one** or **two** sentences **each**. **Each** question carries a weight of **1**.

- ✓ 17) Scope of financial management.
- 18) Market value.
- 19) Working capital.
- 20) Sensitivity analysis.
- 21) ARR method.
- 22) Levered firm.
- 23) Degree of financial leverage.
- 24) Cash adequacy standard.
- 25) Pre-emptive rights.
- 26) Property dividends.
- 27) Right issue.
- ✓ 28) ABC analysis.

SECTION – C

Answer **any five** questions in **not** exceeding **one** paragraph **each**. **Each** question carries a weight of **2**.

- 29) Write notes on responsibilities of financial management.
- 30) Explain the concept of hard-core working capital.
- 31) Explain the scope of receivable management.
- 32) The average rate of dividend paid by ABC Ltd for the last 5 years is 21%. The earnings of the company have recorded a growth rate of 3% per annum. The market value of the equity shares is estimated to be Rs. 105. Find out the cost of equity shares capital.



33) The XYZ company has the following capital structure :

Source	Amount (Rs)
Equity shares	40,00,000
60% Preferences Shares	10,00,000
8% Debentures	30,00,000

The share of the company sells for Rs. 20. it is expected that company will pay current dividend of Rs. 2 per share which will grow at 7% for ever. Assume a 50% tax rate. Compute the weighted average cost of capital based on existing capital structure.

- 34) Explain the objectives of capital budgeting.
- 35) Company DEF Ltd is expecting an annual EBIT of Rs. 1,00,000. The company has Rs. 4 lakhs in 10% debentures. The equity capitalization rate is 12.5%. The company proposes to issue additional equity shares of Rs.1 lakh and use the proceeds for redemption of debentures of Rs.1 lakh. Calculate the value of the firm and the overall cost of capital.
- 36) PQR Ltd earnings are Rs.5 per share. The capitalization rate is 10% and the return on investments is 12%. Under Walter's model determine the market price of share if the payout is 20%.

SECTION – D

Answer **any two** questions in **not exceeding four pages each**. Each question carries a weight of 4.

- 37) Explain in detail the factors to be considered for measurement of corporate debt capacity.
- 38) Explain and give comparative description of various methods of ranking investment proposals.
- 39) Explain the assumptions and implications of Walter's dividend model.