



Reg. No. :

Name :

**Third Semester B.B.A. Degree Examination, January 2015
(Career Related First Degree Programme Under CBCSS)
FINANCIAL MANAGEMENT
BM 1343 (2011)/BM 1344 (2010)**

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) The meaning of capital budgeting is
 - a) Budget of sources of income
 - b) Planning and control of capital expenditures
 - c) Preparing capital budget and finding out variances
 - d) None of the above
- 2) High cost of capital is the evidence of
 - a) Low income of the business
 - b) Too much risk
 - c) Unbalanced capital structure
 - d) All of the above
- 3) The function of financial leverage is
 - a) Financial arrangement
 - b) Debt redemption
 - c) Analysis of effect of fixed changes bearing sources of capital of profits
 - d) Effect of equity share capital on profits
- 4) Sales Rs. 2,00,000, variable costs Rs. 1,40,000. Fixed costs Rs. 40,000, operating leverage will be
 - a) 5
 - b) 3
 - c) 2
 - d) 2.5



II. 5) For manufacturing on unit of a product 10 units of raw materials are needed. Company manufactures 18,000 units of the product p.a. It costs Rs. 400 each time order is placed for raw materials. Carrying costs are Rs. 16 per unit of raw materials per year. What is EOQ ?

- | | |
|---------------|------------------|
| a) 2000 units | b) 2500 units |
| c) 3000 units | d) None of these |
- 6) Which of the following costs is not associated with receivables ?
- | | |
|-------------------|----------------------|
| a) Carrying costs | b) Delinquency costs |
| c) Default costs | d) None of these |
- 7) Deposit float consists of
- | | |
|-----------------|---------------------|
| a) Postal float | b) Processing float |
| c) Bank float | d) All of the above |
- 8) Concentration banking is a method of
- | | |
|-----------------------------|---------------------------|
| a) Decentralized collection | b) Centralized collection |
| c) Direct collection | d) None of these |

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

- 9) Financing decision is related to _____
(Capital structure, purchase of fixed assets, dividend distribution, maintenance of accounts)
- 10) Implicit costs arise, when _____
(There is cash inflow, the funds are utilized, the funds are acquired, none of the above)
- 11) Risk in capital budgeting implies that the decision-maker knows _____ of the cash flows.
(Variability, probability, certainty, risk)
- 12) Business risk can be measured by _____
(Financial leverage, operating leverage, combined leverage)

IV. Match the following :

- | | |
|----------------------|--------------------------|
| 13) Treasury | A) Merchant Banking |
| 14) Bills receivable | B) Risk |
| 15) IPO | C) Government |
| 16) Beta | D) Negotiable Instrument |

(4×1=4 Wt.)



SECTION – B

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

- | | |
|--------------------------------------|----------------------------|
| 17. Net worth | 18. Net working capital |
| 19. Weighted average cost of capital | 20. Payback period |
| 21. PE ratio | 22. Convertible debentures |
| 23. Debt equity ratio | 24. Stock split |
| 25. Zero coupon bonds | 26. IPO |
| 27. Return on investment | 28. Risk free rate |
- (8×1=8 Wt.)**

SECTION – C

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

29. In what ways is the wealth maximization objective superior to the profit maximization objective/explain.
30. X Ltd. planning to replace an old machine with new one. The cost of the new machine is Rs. 5,40,000. Installation charges will be Rs. 20,000. It is expected that additional working capital requirements will be Rs. 40,000.
- The old machine was bought two years ago at a cost of Rs. 1,40,000 and it has economic life of 7 years. It was depreciated on straight line basis. A buyer is willing to purchase this machine for Rs. 1,80,000 and will also bear removal expenses. It is in 55% income tax rate and capital gains are taxed @ 30%. Estimate the net investment (cash outflow at zero time period).
31. Illustrate the concept of the internal rate of return.
32. A 7 year Rs. 100 debenture of a company can be sold at Rs. 97.75. The coupon rate is 15 percent per annum and it will be redeemed at 5% premium on maturity. The company's tax rate is 50%. Compute after tax cost of debenture.
33. Under what conditions would the internal rate of return be reciprocal of the payback period ?
34. What is cost of Preference Share Capital ?
35. Discuss the earnings yield method of computing cost of equity capital.
36. The following information is available
- Cash turnover is 4.5 (based on 360 days in a year)
 - Annual cash operating outflow Rs. 1,75,000
 - Management has decided to stretch accounts payable by 20 days.

What should be the effect of stretching accounts payable on the minimum cash requirements ? If the enterprise can earn 8% on its investments, what could the savings in cost ?

(5×2=10 Wt.)