

(6 pages)

S.No. 1501

08UBA10/
08UBX11

(For the candidates admitted from 2008–2009 onwards)

B.B.A./B.B.A. (CA) DEGREE EXAMINATION,
APRIL/MAY 2018.

Fifth Semester

FINANCIAL MANAGEMENT

Time : Three hours

Maximum : 75 marks

PART A — (10 × 2 = 20 marks)

Answer ALL the questions.

1. What is mean by financial management?
2. List any two functions of financial management.
3. What are the advantages of capital budgeting?
4. Define Leverage.
5. What is composite leverage?
6. What do you mean by optimum capital structure?
7. What is cost of capital?

8. What is specific cost?
9. What is meant by working capital?
10. What is inventory?

PART B — (5 × 5 = 25 marks)

Answer ALL the questions.

11. (a) List out the importance of financial management.

Or

- (b) Describe the functions of financial management.

12. (a) A firm has sales of Rs. 15,00,000, variable cost of Rs. 9,00,000, fixed cost of Rs. 3,00,000 and debt of Rs. 8,00,000 @ 8%. Calculate its operating and financial leverage.

Or

- (b) A project Y has an initial investment of Rs. 5,00,000. Its cash flows for 5 years are Rs. 1,50,000, Rs. 1,80,000, Rs. 1,50,000, Rs. 1,32,000 and Rs. 1,20,000. Compute payback period.

13. (a) What are the factors determining capital structure?

Or

- (b) What are the significance of leverage?

14. (a) Describe the determinants of cost of capital.

Or

- (b) X Ltd. issues Rs. 50,000 @ 8% debenture at par. The tax rate applicable to the company is 50%. Compute the cost of capital.

15. (a) From the following information, compute gross working capital.

Rs.

Cash	60,000
investment	2,00,000
Debtors	2,40,000
Inventory	2,00,000

Or

- (b) Write a note on receivable management.

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PART C — (3 × 10 = 30 marks)

Answer any THREE questions.

16. Explain the objectives of financial management.

17. A project of 6,50,000 is expected to generate the following cash flows over its useful life :

Year		Cash outflows	Cash inflows
0	Initial investment	(6,50,000)	0
1		—	1,50,000
2		—	2,20,000
3		—	3,00,000
4		—	2,50,000
5		—	1,80,000
6		—	1,12,000
6	Salvage value	—	20,000

The project does not require any cash expenses. Depreciation is to be provided using straight line method. According to accounting policies of the company, the salvage value is treated as the reduction in depreciable basis. Compute Accounting Rate of Return from the above information.

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[P.T.O.]

18. Explain the Modigliani Miller approach with example.

19. (a) A firm's after tax cost of capital of the specific source is as follows :

Cost of debt	10%
Cost of preference shares (including dividend tax)	14%
Cost of equity funds	17%

(b) The following is the capital structure :

Source	Amount (Rs.)
Debt	3,00,000
Preference shares	2,00,000
Equity shares	5,00,000
	<u>10,00,000</u>

Calculate the cost of capital.

20. From the following information, prepare a statement in column form showing the working capital requirements.

Budgeted sales (Rs. 10 per unit) Rs. 2,60,000 p.a.

Analysis of costs	Rs.
Raw Materials	3.00
Direct labour	4.00
Overhead	2.00
Total cost	9.00
Profit	1.00
Selling price	10.00

It is estimated that

- (a) Raw materials are carried in stock for three weeks and finished goods for two weeks.
- (b) Factory processing will take three weeks.
- (c) Suppliers will give full five weeks credit.
- (d) Customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.