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(Pages : 3)

Name.....

Reg. No.....

THIRD SEMESTER (CBCSS—UG) DEGREE EXAMINATION, NOVEMBER 2020

B.B.A.

BBA 3B 05—FINANCIAL MANAGEMENT

Time : Two Hours and a Half

Maximum : 80 Marks

Section A

*Answer at least ten questions.
Each question carries 3 marks.
All questions can be attended.
Overall Ceiling 30.*

1. What is the fundamental principle of finance ?
2. What is capital budgeting ?
3. What is the difference between gross working capital and networking capital ?
4. What do you mean by cost of capital ?
5. What do you understand by post pay-back profitability ?
6. Distinguish between operating and financial leverage.
7. What is capital rationing ?
8. Explain the net operating income approach.
9. What is factoring ?
10. What is accounting rate of return ?
11. Explain scrip dividend.
12. What is composite leverage ?
13. What is stock split ?
14. Explain lock box system.
15. What is ABC analysis ?

(10 × 3 = 30 marks)

Turn over

Section B

*Answer at least five questions.
Each question carries 6 marks.
All questions can be attended.
Overall Ceiling 30.*

16. Discuss the steps involved in capital budgeting process.
17. What are the factors determining working capital requirements of a firm ?
18. Explain the functions of financial management.
19. The cost of goods sold of Sunrise Ltd. is Rs. 5,00,000. The opening inventory is Rs. 40,000 and closing inventory is Rs. 60,000. Find out inventory turnover ratio.
20. A company has sales of Rs. 5,00,000, variable costs Rs. 3,00,000, fixed costs Rs. 1,00,000 and long term loans of Rs. 4,00,000 at 10% rate of interest. Calculate composite leverage.
21. A project costs Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12% p.a. but before tax of 50%. Calculate pay-back period.
22. A company issues 10,000 10% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital.
23. A firm expects a sale of 90,000 units, which it purchased for Rs. 3 per unit. The order cost is Rs. 300 and the firm's carrying cost is Rs. 6 per unit. What is the Economic Order Quantity ?

(5 × 6 = 30 marks)

Section C

*Answer any two questions.
Each question carries 10 marks.*

24. Define Capital Structure. What are the principal determinants on the capital structure of a firm ? Explain the important theories of capital structure.
25. A company is considering an investment proposal to install a new machinery at a cost of Rs. 2,50,000. It has a life expectancy of 5 years and has no salvage value. The tax rate is 40%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before tax and after depreciation (CFBT) from the investment proposal are as follows :

Year	CFBT	P.V. Factor at 10%
1	Rs. 60,000	0.909
2	Rs. 70,000	0.826
3	Rs. 90,000	0.751
4	Rs. 1,00,000	0.683
5	Rs. 1,50,000	0.621

You are required to compute :

- (i) Average rate of return.
- (ii) NPV at 10% discount rate.
- (iii) Profitability index at 10% discount rate.

26. P Ltd has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further capital of Rs. 3,00,000 for expansion. The company plans following schemes.

- a) All common stock.
- b) Rs. 1,00,000 Equity shares and Rs. 2,00,000 in 10% Debentures.
- c) Rs. 1,00,000 in Equity shares and Rs. 2,00,000 in 8% Preference share capital.

Company's EBIT is Rs. 1,50,000 and corporate tax is 50%. Determine EPS in each plan and comment on the best alternative.

(2 × 10 = 20 marks)