

B.B.A. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2013**Fifth Semester****Core Course—FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum Weight : 25

Part A (Objective Type)*Answer all questions.**Each bunch of four questions carries a weight of 1.*

- I. 1 The chief aim of financial management is :
- (a) To earn maximum profit.
 - (b) To reduce cost of capital.
 - (c) To maximise the wealth of a firm.
 - (d) To face the challenges of the risk.
- 2 ——— are entitled to dividend at a fixed rate.
- (a) Equity shares.
 - (b) Preference shares.
 - (c) Convertible equity shares.
 - (d) Debentures.
- 3 Implicit cost is also called as ———.
- (a) Economic cost.
 - (b) Opportunity cost.
 - (c) Marginal cost.
 - (d) Both (a) and (b).
- 4 Stock dividend means ———.
- (a) Dividend in the form of cash.
 - (b) Dividend in the form of stock.
 - (c) Dividend in the form of shares.
 - (d) Dividend in form of properties.
- II. 5 ——— refers to the average cost of capital which has to be incurred to obtain additional funds required by a firm.
- (a) Average cost.
 - (b) Specific cost.
 - (c) Composite cost.
 - (d) Marginal cost.
- 6 The most appropriate dividend policy is payment of ———.
- (a) Market value of shares.
 - (b) Earning per share.
 - (c) Constant dividend per share.
 - (d) Return on investment.
- 7 If the proportion of debt to total capital is high the capital is said to be :
- (a) Low geared.
 - (b) High geared.
 - (c) Thick.
 - (d) Good.

Turn over

- 8 The optimum capital structure is obtained when the market value _____.
(a) Per equity share is the minimum.
(b) Per equity share is the maximum.
(c) Per preference share is the minimum.
(d) Per preference share is the maximum.
- III. 9 The arbitrage process is the behavioural foundation for the _____.
(a) Net Operating Income Approach.
(b) MM hypothesis.
(c) Net Income Approach.
(d) None of the above.
- 10 Cost of capital consists of both business risk and _____.
(a) Natural risk. (b) Financial risk.
(c) Marketing risk. (d) Political risk.
- 11 The traditional approach of financial management is mainly focussed on _____.
(a) Business Finance. (b) Industrial Finance.
(c) Corporate Finance. (d) Agricultural Finance.
- 12 The term trading on equity is generally used for _____ financial leverage.
(a) Favourable. (b) Unfavourable.
(c) Low. (d) None of the above.
- IV. 13 _____ involves balancing the cost of carrying receivables and loss of sales due to a tight credit policy.
(a) Management of receivables. (b) Management of cash.
(c) Management of inventory. (d) Management of investments.
- 14 The term permanent working capital is also termed as _____.
(a) Floating capital. (b) Temporary Working Capital.
(c) Core Current Assets. (d) All the above.
- 15 The holding of cash for meeting the day to day transactions of business is :
(a) Speculative motive. (b) Precautionary motive.
(c) Transaction motive. (d) Compensation motive.
- 16 Time taken by the bank in collecting payment from the customer's bank is referred to as :
(a) Deposit float. (b) Bank float.
(c) Lethargy. (d) Postal float.

(4 × 1 = 4)

Part B (Short Answer Type)

*Answer any five questions.
Each question carries a weight of 1.*

- 17 What is Financial Management ?
- 18 What is lock box system ?
- 19 What is ageing schedule of debtors ?
- 20 What is Operating cycle ?
- 21 What is operating leverage ?
- 22 Explain scrip dividend.
- 23 What is weighted average cost of capital ?
- 24 What do you mean by ploughing back of profits ?

(5 × 1 = 5)

Part C (Short Essay/Problem Solving Type)

*Answer any four questions.
Each question carries a weight of 2.*

- 25 The firms A and B are identical in all respects including risk factors except for debt equity mix. Firm A has issued 12 % debentures of Rs. 15 lakhs while B has issued only equity. Both the firms earn 30 % before interest and taxes on their total assets of Rs. 25 lakhs.
Assuming a tax rate of 50 % and capitalisation rate of 20 % for an all equity company. You are required to compute the value of the two firms using (i) Net Income Approach and (ii) Net Operating Income Approach.
- 26 Y Ltd. issued a new 10 % debenture of Rs. 1,000 face value to be redeemed after 10 years. Debenture have been issued at par. However, floatation cost amount to 4 %. Find out the cost of capital.
- 27 The operating and cost data of HK Ltd. are :

	Rs.
Sales	... 20,00,000
Variable costs	... 14,00,000
Fixed costs	... 4,00,000 (including 15 per cent interest on Rs. 10,00,000)

Calculate its operating, financial and combined leverages.

- 28 What is stable dividend policy ? Why should a firm follow such a policy ?
- 29 Explain the concepts of working capital.
- 30 Examine the relative merits of preference shares and equity shares mode of financing.

(4 × 2 = 8)

Turn over

Part D (Essay Type)

Answer any two questions.

Each question carries a weight of 4.

- 31 What do you mean by capital structure ? What are the major determinants of capital structure ?
- 32 Critically examine Gordon's theory of dividend.
- 33 Write notes on :
 - (a) Credit policy.
 - (b) Miller-Orr Model.

(2 × 4 = 8)