

B.B.A. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2014**Fifth Semester****Core Course – FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum Weight : 25

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

- I. 1. Finance function involves :
- (a) Procurement of finance only.
 - (b) Expenditure of funds only.
 - (c) Safe custody of funds only.
 - (d) Procurement and effective utilisation of funds.
2. The value of a levered firm is higher than that of an unlevered firm on account of _____.
- (a) Retained Earnings.
 - (b) Net Profit.
 - (c) Corporate Taxes.
 - (d) Interest on Debentures.
3. _____ promises to pay the shareholders at a future specific date.
- (a) Cash dividend.
 - (b) Scrip dividend.
 - (c) Property dividend.
 - (d) Stock dividend.
4. Term loans are used for _____.
- (a) Purchase of stock.
 - (b) Settlement of book debts.
 - (c) Purchase of current assets.
 - (d) Acquisition of fixed assets.
- II. 5. The discount rate that equates the present value of cash inflows with the present value of its expected cash outflows is :
- (a) Average cost.
 - (b) Specific cost.
 - (c) Implicit cost.
 - (d) Explicit cost.
6. A statement estimating amount of capital and determining its composition is termed as _____.
- (a) Production plan.
 - (b) Financial plan.
 - (c) Capital plan.
 - (d) Organisational plan.

Turn over

7. Management of receivable involves balancing the cost of carrying receivables and the loss of sales due to _____.

- (a) Tight Cash Policy.
- (b) Tight Credit Policy.
- (c) Liberal Credit Policy.
- (d) Lenient Credit Policy.

8. Excess of current assets over current liabilities refers to _____.

- (a) Gross Working Capital.
- (b) Gross Floating Capital.
- (c) Net Working Capital.
- (d) Fixed Capital.

III. 9. Modigliani-Miller approach assumes that _____ markets are perfect.

- (a) Capital.
- (b) Money.
- (c) Investment.
- (d) Commodity.

10. Trading on Equity implies having a high _____.

- (a) Debt-Equity Ratio.
- (b) Operating Ratio.
- (c) Profitability Ratio.
- (d) Turnover Ratio.

11. M.M. Theory in perfect market suggests that dividend payment :

- (a) Has a positive impact on the value of a firm.
- (b) Has no impact on the value of a firm.
- (c) Has a negative impact on the value of a firm.
- (d) Has negligible impact on the firm.

12. Capital structure represents :

- (a) Ratio between different forms of capital.
- (b) All liabilities.
- (c) All assets.
- (d) Assets and Liabilities.

IV. 13. Conservative current assets policy indicates _____.

- (a) Greater liquidity.
- (b) Higher risk.
- (c) Poor liquidity.
- (d) Moderate risk.

14. For financial decision-making, relevant costs are :

- (a) Future costs.
- (b) Marginal costs.
- (c) Historical costs.
- (d) Pre-determined costs.

15. _____ are entitled to dividend at a fixed rate.
- (a) Equity shares. (b) Preference shares.
(c) Convertible Equity Shares. (d) Debentures.
16. _____ are not redeemable during the life time of the company.
- (a) Equity shares. (b) Debentures.
(c) Public deposits. (d) Bonds.

(4 × 1 = 4)

Part B (Short Answer Type)

Answer any five questions from this part.

Each question carries a weight of 1.

17. What is marginal cost of capital?
18. What is capital gearing?
19. What is stock dividend?
20. What is credit policy?
21. Explain the term float.
22. What do you mean permanent working capital?
23. What is optimal capital structure?
24. What is financial leverage?

(5 × 1 = 5)

Part C (Short Essay/Problem Solving Type)

Answer any four questions from this part.

Each question carries a weight of 2.

25. A company issues 10% debentures for Rs. 4,00,000 Rate of tax is 55%. Calculate the cost of debt (after tax), if the debentures are issued (a) at par ; (b) at a discount at 10% ; and (c) at a premium of 10%.
26. Calculate degree of (a) Operating leverage ; (b) Financial leverage ; (c) Combined leverage from the following data :

Sales 1,00,000 units at Rs. 2 per unit = Rs. 2,00,000

Variable cost per unit at Re. 0.70.

Fixed costs Rs. 1,00,000

Interest charges Rs. 3,668.

Turn over

27. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs. 1,00,000, 5% debentures in its financing. Both the firms have earnings before interest and tax of Rs. 25,000 and the equity capitalisation rate is 10%. Assuming the corporate tax of 50%. Calculate the value of the firms using MM approach.
28. Discuss the merits and demerits of equity shares.
29. What are the principal motives of holding cash?
30. Explain the objectives of receivables management.

(4 × 2 = 8)

Part D (Essay Type)

Answer any two questions from this part.

Each question carries a weight of 4.

31. Define Financial Management. Discuss its objectives.
32. Critically examine Walter's dividend model.
33. What is working capital management? Explain the determinants of working capital needs of an enterprise.

(2 × 4 = 8)