15U444 (Pages:3) Name: ……………………

Reg. No……………………

FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, MAY 2017

(CUCBCSS-UG)

CC15U BB4 B06 - FINANCIAL MANAGEMENT

(Core Course)

(2015 Admission)

Time: Three Hours Maximum: 80 Marks

Part A

Answer all questions. Each Question carries 1 Mark.

1. The relationship between change in sales and operating profit is known as --------.
2. In India, commercial papers are issued as per the guidelines issued by ------------.
3. The costs incurred for maintaining a given level of inventory viz, insurance, storage, tax etc are called -----------.
4. The ------------ motive is the need to hold cash to meet contingencies in the future.
5. If the rate of interest on Rs.1000 par value perpetual bond is 7 percent, and its price is Rs.700, its YTM will be -------------.
6. LIBOR stands for ----------------------.
7. The process of buying an asset or security in one market and selling the same in another market to derive benefit from the price differential is referred to as ----------.
8. ---------------- dividend is one which is declared before the declaration of the final dividend.
9. ---------- is the rate of return which equates the present value of anticipated net cash inflows with the initial outlay.
10. --------------- is the process of determining present values of a series of future cash flows.

(10x1 = 10 marks)

Part B

Answer any Eight questions. Each Question carries 2 Marks.

11. Explain the scope of finance.
12. Explain sensitivity analysis.
13. What do you understand by lock box system?
14. What is meant by capital rationing?
15. Explain gross working capital concept.

16. What is factoring?
17. What is tax shield?
18. The annual demand of a certain component bought from the market is 1000 units. The cost of placing an order is Rs. 90 and the carrying cost per unit is Rs.3 p.a. Calculate the Economic Order Quantity for the item.
19. ABC Company's equity share is expected to provide a dividend of Rs.4 and fetch a price of Rs. 40 a year hence. What price would it sell for now if investors' required rate of return is 16%.
20. Calculate the expected rate of return for security from the following information.

$R_f = 10\%$; $R_m = 18\%$; $\beta_i = 1.35$. **(8x2 =16 marks)**

Part C

Answer any Six questions. Each Question carries 4 Marks.

21. Contrast between the operating leverage and the financial leverage.
22. Explain the Modigliani and Miller hypothesis for corporate dividend policy. What are its basic assumptions?
23. Why is it inappropriate to seek profit maximization as the goal of financial decision making? How would you justify the adoption of present value maximization as an apt substitute for it?
24. Machine *A* has a cost of Rs. 100000 and net cash flow of Rs. 40000 per year, for eight years. A substitute machine *B* would cost Rs. 70000 and generate net cash flow of Rs.16000 per year for eight years. The required rate of return of both machines is 11 percent. Calculate the IRR and NPV for the machines. Which machine should be accepted and why?
25. Consider the following information for XYZ Enterprise:

	Rs. in lakh
EBIT	1520
PBT	620
Fixed cost	900

Calculate percentage change in earnings per share if sales increased by 6 percent.

26. The relevant financial information for Daxon Ltd for the year ended 2016 is given below:

Profit and Loss Account Data		*Balance Sheet Data*		
(Rs. in million)			*Beginning of 2016*	*End of 2016*
Sales	240	Inventory	27	36
Cost of goods sold	168	Accounts receivable	36	48
		Accounts payable	21	30

What is the length of the operating cycle and cash cycle? Assume 365 days to a year.

27. 'Financial managers are responsible for the financial health of an organization'. Comment.

28. Explain different types of working capital.

(6x4=24 marks)

Part D

Answer any two questions. Each Question carries 15 Marks.

29. Explain different sources of working capital.

30. Explain different techniques used to handle risk in capital budgeting.

31. The following information is available in respect of a firm:

    Capitalization rate = 8%; Earnings per share = Rs.10

    Assumed rate of return on investment:

    1) 6%   2) 5%   3) 8%

    Show the effect of dividend policy on market price of a shares using Walter's Model at the following payout ratios: a) 0%   b)50%   c)75%   and d)100%

(2x15=30 marks)

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