

16U444

(Pages: 3)

Name:.....

Reg.No.....

FOURTH SEMESTER B.B.A. DEGREE EXAMINATION, APRIL 2018

(Regular/Supplementary/Improvement)

(CUCBCSS-UG)

CC15U BB4 B06 - FINANCIAL MANAGEMENT

(Core Course)

(2015 Admission onwards)

Time: Three Hours

Maximum: 80 Marks

Part A

Answer *all* questions. Each question carries 1 mark.

1. According to MM approach, the dividend decisions and retained earnings decisions does not influence the of shares.
2. EBIT stands for
3. is the rate which equates the present value of expected future cash flows with the cost of the investment.
4. If operating leverage is 2 times and fixed cost is Rs 10000, the amount of EBIT will be
5. Cost of capital is the rate of return expected by its investors.
6. Working capital is also known as
7. describes the kinds of securities and their proportions in the total capitalization of the company.
8. CAPM stands for
9. A firm's cost of debt (k_d) is 7%, cost of equity (k_e) is 10% and the debt –equity ratio is 2:1. The overall cost of capital (k_o) will be
10. refers to the relationship between equity capital and long term debt.

(10 x 1 = 10 Marks)

Part B

Answer *eight* questions. Each question carries 2 marks.

11. What is capital rationing?
12. What is Factoring?
13. Brief the relationship between EBIT and EPS.

14. The daily demand for a mechanical part is about 25 units. Every time an order is placed, a fixed cost of Rs 25 is incurred. The daily holding cost per unit is 40 paise. Determine the economic lot size.
15. What is the significance of capital budgeting decisions?
16. What is financial management?
17. What is lock –box system?
18. ABC Ltd raised a debt of Rs 50 lakhs on the terms that interest shall be payable at prime lending rate of bank plus three percent. The prime lending rate of the bank is 7%. Calculate the cost of debt assuming that the corporate rate of tax is 35%.
19. What do you mean by working capital?
20. What is operating leverage?

(8 x 2 = 16 Marks)

Part CAnswer any *six* questions. Each question carries 4 marks.

21. Discuss the various forms of dividend .What are the main determinants of the dividend policy of a corporate enterprise?
22. Explain the MM approach to capital structure.
23. What is discounted cash flow method? What are its merits and demerits?
24. The current market price of an equity share of a company is Rs 90.The current dividend per share is RS 4.50. In case the dividends are expected to grow at the rate of 8%.What is the shareholders required rate of return?
25. Prepare stores ledger account from the following information.

Jan 1	Purchased 500 kg at Rs 20 per kg.
Jan 10	Purchased 300 kg at Rs 21 per kg.
Jan 15	Issued 600 kg.
Jan 20	Purchased 400 kg at Rs 22 per kg.
Jan 25	Issued 300 kg.
Jan 27	Purchased 500 kg at Rs 21 per kg.
Jan 31	Issued 200 kg.

Adopt the Base stock method of issue and ascertain the value of closing stock. Assume Base stock 200 kg.

(2)

26. A firm has sales of RS 75,00,000 ,variable cost of RS 42,00,000 and fixed cost of Rs 6,00,000.It has a debt of Rs 45,00,000 at 9% and equity of Rs 55,00,000.Calculate operating, financial and combined leverage of the firm. Calculate the new EBIT, if the sales drop to Rs 50, 00,000.
27. A steel company is considering to invest in a project which cost Rs 2, 50,000 and will require an increase in the level of inventories and receivables (working capital) of Rs 1,25,000 over its life. The project will generate additional sales of Rs 2, 50,000 and will require additional expenses of Rs 75,000 every year. The project has 5 years life. The firms cost of capital is 10 % and is in the tax bracket of 50%. Assuming straight line method of depreciation, should the project be accepted?
P V of an annuity of Re 1 at 10 % for 5 years is 6.105.
28. Discuss the factors determining working capital.

(6 x 4 = 24 Marks)

Part DAnswer any *two* questions. Each question carries 15 marks.

29. What is meant by capital structure? Explain the various theories of capital structure.
30. The following information is available in respect of a firm. Capitalization rate is 15%.EPS is Rs 100. Assumed rate of return on investment is (i) 20% (ii)15% (iii)10%.Show the effect of dividend policy on market price of share applying Walters formula when the dividend payment out ratio is (a) 0% (b)20% (c)40% (d)80% (e)100%
31. What is financial management? What major decisions are required to be taken in finance?

(2 x 15 = 30 Marks)

(3)