IV Semester B.B.M. Examination, May 2016
(2013-14 and Onwards) (Repeaters)
BUSINESS MANAGEMENT
Paper – 4.4 : Financial Management

Time : 3 Hours Max. Marks : 100

Instruction : *Answers should be written* ***only*** *in* ***English***.

SECTION – A

1. Answer **any eight** sub-questions. **Each** sub-question carries **2** marks. **(2×8=16)**
   a) What is financial management ?
   b) What is scrip dividend ?
   c) What is a financial plan ?
   d) What is meant by profit maximisation ?
   e) Mr. A has a irredeemable preference share of ₹ 1,000. He receives an annual dividend of ₹ 80 annually. What will be its value if the required rate of return is 10% ?
   f) What is Trading on Equity ?
   g) What is payback period ?
   h) What is point of indifference ?
   i) Mention any two objects of working capital management.
   j) What is meant by operating cycle ?

SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks. **(3×8=24)**

2. Briefly explain the principles of a financial plan.

3. Find out the present value of annuity receipt of ₹ 7,000 received for 5 years at the rate of 12% discount rate.

P.T.O.

4. A firm has a sales of ₹ 75,00,000; variable cost of ₹ 42,00,000 and a fixed cost of ₹ 6,00,000/-. It was a debt of ₹ 45,00,000 at 9% p.a. and equity of ₹ 55,00,000.

   Calculate the operating, financial and combined leverage of the firm.

5. A company is requiring a machine which requires an investment of ₹ 1,60,000. The net income before tax and depreciation is estimated as follows :

Years	₹
1	56,000
2	48,000
3	30,000
4	64,000
5	80,000

   Depreciation is to be charged on straight line basis. Tax rate is 40%. Calculate Accounting rate of return.

SECTION – C

Answer Question No. **10** and **any three** of the remaining questions. **Each** question carries **15** marks. **(4×15=60)**

6. What is permanent and variable working capital ? Explain the dangers of excessive working capital and also inadequate working capital.

7. Explain the factors influencing the dividend policy.

8. Explain the capital Budgeting process.

9. ABC company has currently an ordinary share capital of ₹ 25 lakhs, consisting of 25,000 shares of ₹ 100 each. The management is planning to raise another ₹ 20 lakhs to finance a major expansion programme through one of four possible financial plans. The options are :

   i) Entirely through ordinary shares

   ii) ₹ 10 lakhs through ordinary shares and ₹ 10 lakhs through long-term borrowings at 8% interest p.a.

iii) ₹ 5 lakhs through ordinary shares and ₹ 15 lakhs through long-term borrowings at 9% interest p.a.

iv) ₹ 10 lakhs through ordinary shares and ₹ 10 lakhs through preference shares with 5% dividend.

The company's EBIT is ₹ 8 lakhs. Corporate Tax rate is 50%. Determine the earnings per share in each alternative and comment which alternative is the best.

10. A firm whose cost of capital is 10% is considering two projects A and B, the details of which are

Particulars	**Project A**	**Project B**
	₹	₹
Investment	2,00,000	2,00,000
Cash Inflows		
1	40,000	90,000
2	60,000	80,000
3	80,000	60,000
4	1,00,000	20,000
5	1,20,000	16,000

Compute :

1) Net present value at 10%.

2) Internal rate of return for

Project A by 20% and 25% and

Project B by 10% and 15%.

Year	**Present Value Factors @**			
	10%	**15%**	**20%**	**25%**
1	0.909	0.870	0.833	0.800
2	0.826	0.756	0.694	0.640
3	0.751	0.658	0.579	0.512
4	0.683	0.572	0.482	0.410
5	0.621	0.497	0.402	0.328