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MS – 441

IV Semester B.B.M. Examination, May/June 2014  
(Repeaters) (2012-13 Only)  
**BUSINESS MANAGEMENT**  
Paper 4.4 : Financial Management

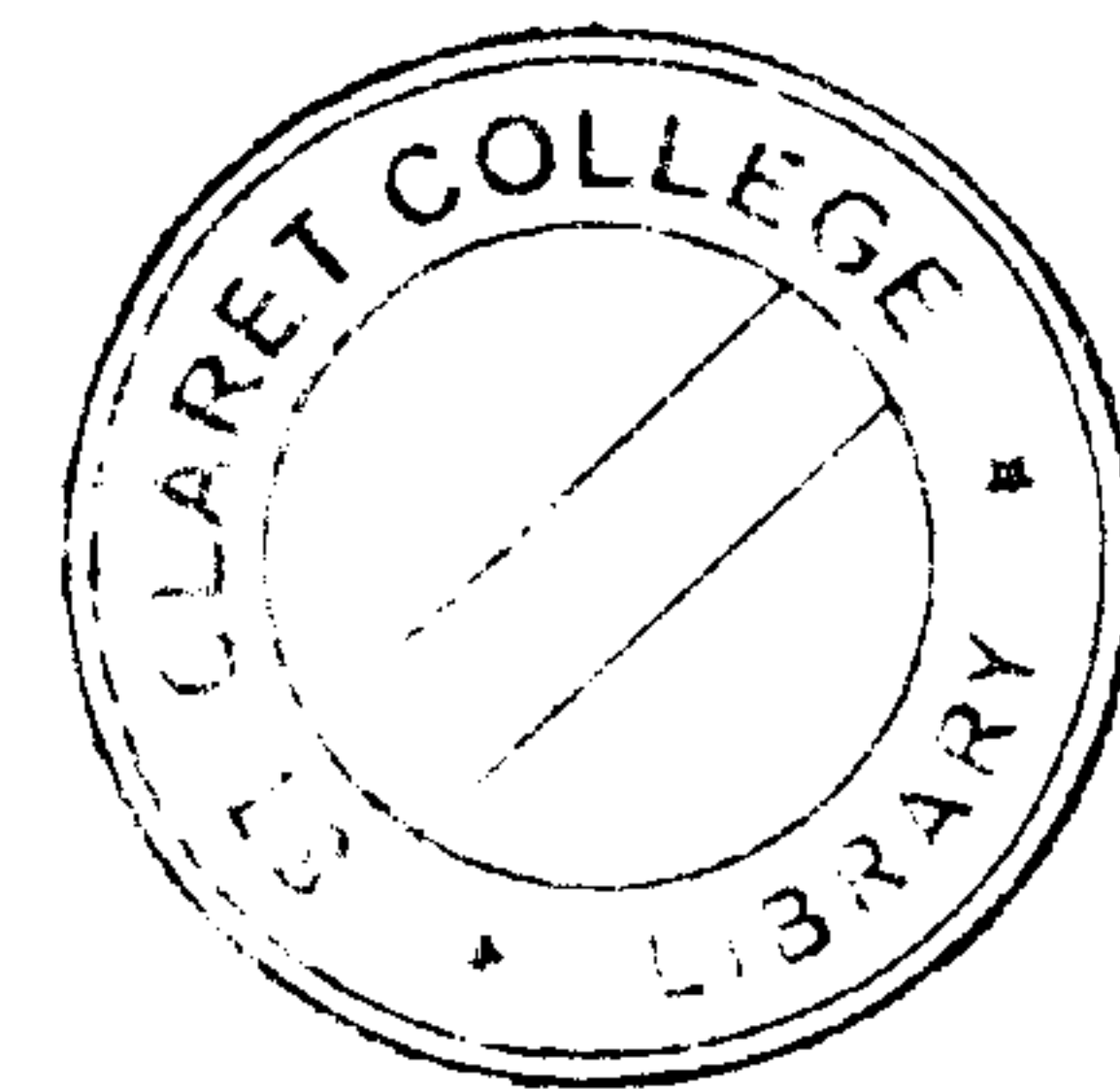
Time : 3 Hours

Max. Marks : 100

**Instruction:** Answer to *all* the questions in **English only**.

SECTION – A

1. Answer **any 8** sub-questions. **Each** sub-question carries **2** marks : **(8×2=16)**
- State any four functions of financial management.
  - What is capital structure ?
  - What is marginal cost of capital ?
  - What do you mean by combined leverage ?
  - State the significance of EPS analysis.
  - What is stock-dividend ?
  - Distinguish between gross working capital and net working capital.
  - Mention the components of working capital management.
  - If initial investment is Rs. 10,00,000/- residual value Rs. 1,00,000/- estimated working life is five years, additional working capital Rs. 1,00,000/- find out average investment.
  - A company sold 9000 units at Rs. 100/- each incurring variable cost @ 60% per unit and fixed cost Rs. 1,20,000. Calculate EBIT.



SECTION – B

- Answer **any 3** of the following. **Each** question carries **8** marks : **(3×8=24)**
- “Wealth maximisation is a better goal of financial management than maximisation of profit.” Discuss.
  - Explain the factors influencing capital structure of a company.
  - Explain the process of capital budgeting.

P.T.O.



5. A company is planning to undertake a project requiring capital investment of Rs. 10,00,000/- and return is expected to be 15% (EBIT ₹ 1,50,000). Determine EPS, when :
- The entire capital is raised by means of equity shares of Rs. 100/- each.
  - The project is financed 50% by means of equity shares of Rs. 100/- each and the balance in the form of debt @ 10% interest. Assume tax rate as 30%.
6. Malnad Company Ltd. has achieved a sales of Rs. 14,00,000/- keeping selling price per unit at Rs. 20/- and variable cost per unit Rs. 14/-. Total fixed expenses are Rs. 3,40,000/- All its assets are financed 50% by equity shares and 50% by debt, the interest on the same amounted to Rs. 40,000/- tax rate at 30% is applicable.

**Compute :**

- Operating leverage
- Financial leverage and
- Combined leverage.

SECTION – C

Answer **any four** of the following. **Each** question carries **15** marks : **(4×15=60)**

- Define financial management. Explain the scope of financial management.
- What is a dividend policy ? Describe the determinants of dividend policy.
- What is the significance of adequate working capital ? What factors would you take into consideration while estimating the working capital needs of a concern ?
- The Capital Structure of Growing Ltd. is as follows :

	<b>Rs.</b>
Equity shares of Rs. 100/- each	4,00,000/-
12% preference share capital	1,00,000/-
10% debentures	5,00,000/-
Present operating profit (EBIT) is	1,60,000/-
Assume tax rate at 30%	

**Determine :**

- EPS of the company and
- The percentage change in EPS when there is 30% increase and 30% decrease in EBIT.



11. VR India Ltd., has two mutually exclusive projects under consideration.

	<b>Project K Rs.</b>	<b>Project Q Rs.</b>
Investment	20,00,000	15,00,000
Annual profit before depreciation and tax		
I year	5,00,000	3,60,000
II year	6,00,000	4,00,000
III year	7,00,000	4,40,000
IV year	5,00,000	2,00,000
V year	4,00,000	3,20,000

Straight line method of depreciation shall be adopted and tax rate to be 30% p.v. factor @ 10% are as follows :

<b>Year :</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>
<b>p.v. factor :</b>	0.909	0.826	0.751	0.683	0.621

**Compute :**

- 1) Pay back period, and
  - 2) Net present value of both the projects.
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