



MS – 503

43

IV Semester B.B.M. Examination, May 2016  
(Prior to 2013-14) (Repeaters)  
(100 marks – 2012-13 only/90 Marks – Prior to 2012-13)  
Business Management  
Paper – 4.4 : FINANCIAL MANAGEMENT

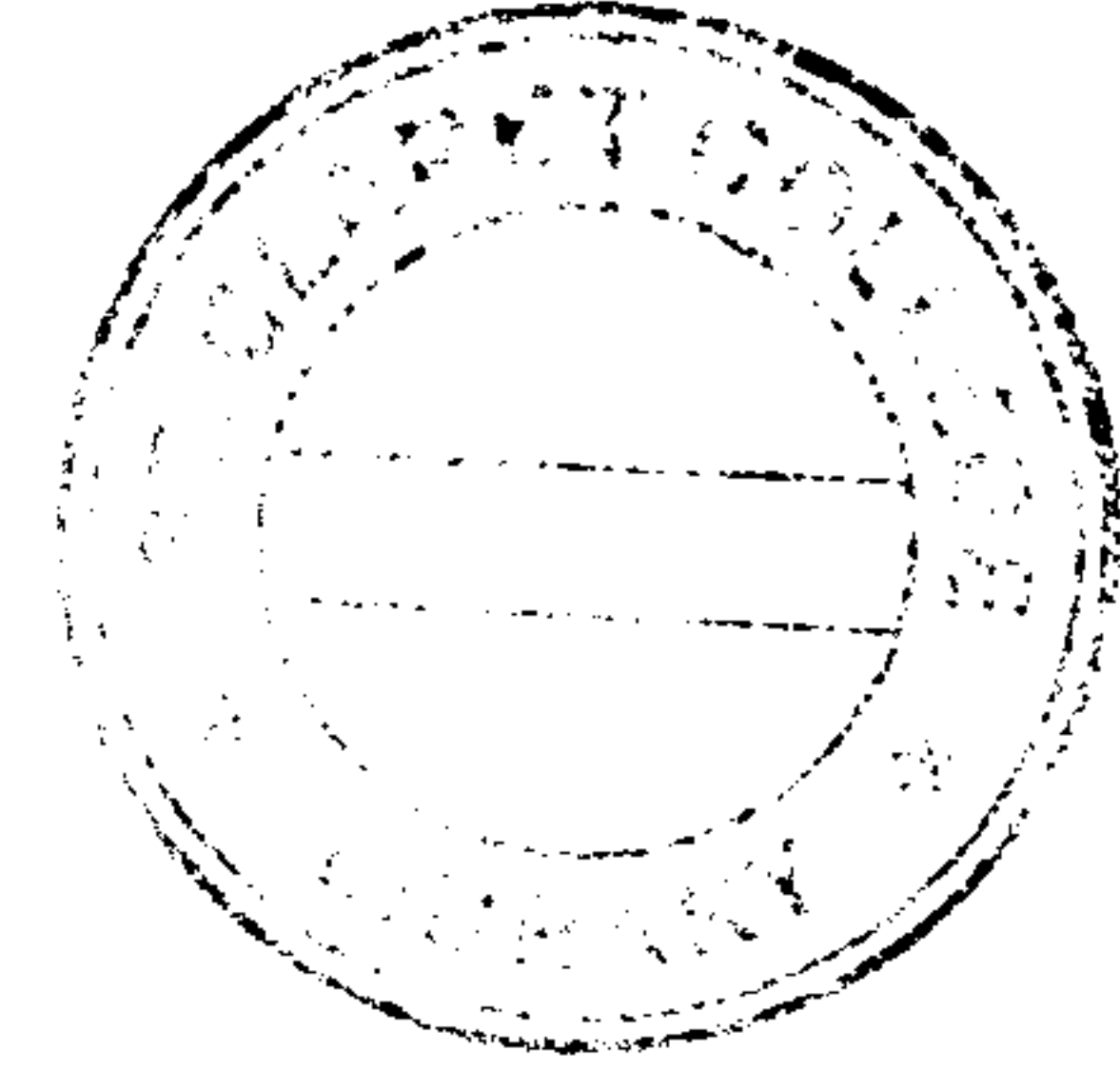
Time : 3 Hours

Max. Marks : 100/90

- Instructions :** 1) Answer **all** questions in **English only**.  
2) Section – **A, B and C** to be answered by **all Repeaters** (90 marks).  
3) Section – **D**, to be answered by students of **2012-13 only** (100 marks).

SECTION – A

1. Answer **any 10** sub-questions. **Each** question carries **two** marks. (10×2=20)
- Define Financial Management.
  - What is Wealth Maximisation ?
  - What is internal rate of return ?
  - Define capital budgeting.
  - What is trade credit ?
  - What is present value of future money ?
  - What is opportunity cost ?
  - What is ABC Analysis ?
  - What is combined leverage ?
  - What is cash budget ?
  - XYZ Ltd. issues Rs. 1,00,000, 9% debentures at a premium of 10%. The cost of floatation is Rs. 2,500. The tax rate applicable is 50%. Compute the cost of debt-capital.
  - What is capital market ?



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## SECTION – B

Answer **any five** questions. **Each** question carries **5** marks.

(5×5=25)

2. Calculate Operating Leverage and Financial Leverage from the following data :  
Sales 100000 units @ Rs. 2 per unit  
Variable cost per unit @ Re. 0.70  
Fixed Cost Rs. 1,00,000  
Interest charges Rs. 3,668.
3. Define working capital. Differentiate between permanent and temporary working capitals.
4. Discuss the factors considered while making a capital investment decisions.
5. What are the advantages of a stable dividend policy ?
6. A firm issues debentures of Rs. 1,00,000 and realises Rs. 98,000 after allowing 2% commission to brokers. The debentures carry interest @ 10% the debentures are due for maturity at the end of 10<sup>th</sup> year. Calculate effective cost of debt before and after tax, assuming corporate tax rate of 55%.
7. Mention the three basic aspects of concept of cost of capital.
8. What are the features of an appropriate capital structure ?

## SECTION – C

Answer **any three** questions. **Each** question carries **15** marks.

(3×15=45)

9. MS Ltd. has the following capital structure.

Equity share capital (20,000) shares	Rs. 40,00,000
10% preference share capital	Rs. 10,00,000
14% debentures	Rs. 30,00,000
	<b>Rs. 80,00,000</b>

The share of the company sells for Rs. 20. It is expected that the Co. will pay next year a dividend of Rs. 2 per share which will grow at 7% forever. Assume 50% tax rate.

- a) Compute the weighted average cost of capital based on the existing capital structure.
- b) Compute the new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 15% debentures. This would increase the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of share will fall to Rs. 15 per share.

10. 'XY' Ltd. can make either of the two investments at the beginning of 2010. Assuming the rate of return of 10% per annum. Evaluate the investment proposal by :

- a) Average rate of return method
- b) Profitability Index
- c) Discounted cash flow method (NPV)
- d) Pay back method.

Details are as follows.

	<b>Project 'X'</b>	<b>Project 'Y'</b>
Cost of the Investment	Rs. 25,000	Rs. 30,000
Life	5 years	6 years
	Net Income (after depreciation and tax)	
	<b>Project 'X'</b>	<b>Project 'Y'</b>
2010	600	3,800
2011	1,000	4,500
2012	2,500	5,000
2013	3,000	4,500
2014	3,500	5,500
2015	—	6,000



It is estimated that each of the alternative projects will require an additional working capital of Rs. 2,000 which will be received back in full after the expiry of each of the project life. Depreciation is provided under straight line method.

Present value of Re – 1 @ 10% is given below.

<b>Year</b>	:	I	II	III	IV	V	VI
<b>PV factor</b>	:	0.909	0.826	0.751	0.683	0.621	0.564

11. Explain the different sources of long term Finance.
12. Explain the factors which determine the dividend policy of a firm.
13. What do you mean by working capital ? State the factors determining working capital.

#### SECTION – D

To be answered by students of **2012-13 only**.

**(10×1=10)**

14. Explain the goals of Financial Management.
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