SG – 509

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IV Semester B.B.M. Examination, September/October 2021
(2013 – 2014 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. **(8×2=16)**

   a) What is Working Capital ?

   b) Define Financial Management.

   c) What do you mean by Equity Shares ?

   d) What is a Capital Structure ?

   e) What is meant by Investment decision ?

   f) What is Stock dividend ?

   g) State the objectives of Financial Management.

   h) What is the accept and reject criteria in Pay back Period ?

   i) What is financing decision ?

   j) What is EBIT ?

SECTION – B

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

2. Briefly explain the steps in financial planning.

3. The following data are available for X Ltd.

Selling price per Unit	₹ 120
Variable cost per Unit	₹ 70
Total fixed cost	₹ 2,00,000

   a) What is the operating leverage when X Ltd. produces and sells 6,000 Units ?

   b) What is the percentage change that will occur in the EBIT of X Ltd. if output increases by 5% ?

P.T.O.

4. Mr. Madhu deposits ₹ 6,000 at the end of every year for five years and the deposit earns compound interest at 12% p.a. Determine how much money he will have at the end of 5 years.

5. A project requires an investment of ₹ 5,00,000 and has a scrap value of ₹ 20,000 after five years. It is expected to yield profits after taxes during the 5 years as follows.

Year	₹
1	40,000
2	60,000
3	70,000
4	50,000
5	20,000

Calculate the average 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. Explain the factors which determine the dividend policy of the firm.

7. Explain the various sources of working capital.

8. Explain the objectives of financial management.

9. A Company's Capital structure consists of the following :

Equity share capital	₹ 20 lakhs
Retained earnings	₹ 10 lakhs
9% preference shares	₹ 12 lakhs
7% Debentures	₹ 8 lakhs
Total	₹ 50 lakhs

The company earns 12% on its capital Income Tax rate is 50%. The company requires a sum of ₹ 25 lakh to finance its expansion programme for which the following alternatives are available to it.

a) Issue of 20,000 equity shares at a premium of ₹ 25/- per share.

b) Issue of 10% preference shares.

c) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three alternatives would you recommend and why ?

10. A company is considering a proposal to purchase a new equipment. The equipment would involve a cash outlay of ₹ 5,00,000 and working capital of ₹ 60,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purpose.

The estimated income before tax cash inflows are as follows.

Year	1	2	3	4	5
Cash inflows before tax	1,80,000	2,20,000	1,90,000	1,70,000	1,40,000

Income Tax rate is 35%. The opportunity cost capital of the company is 10%.

Calculate :

a) Payback Period

b) Net Present Value

c) Internal rate of return

PV factors at 10%, 13% and 15% are as follows :

Year	P.V. Factors		
	10%	13%	15%
1	0.909	0.885	0.870
2	0.826	0.783	0.756
3	0.751	0.693	0.658
4	0.683	0.613	0.572
5	0.621	0.543	0.497