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Name.....

Reg. No.....

**THIRD SEMESTER (CBCSS—UG) DEGREE EXAMINATION  
NOVEMBER 2023**

B.B.A.

BBA 3B 05—FINANCIAL MANAGEMENT

(2019—2022 Admissions)

Time : Two Hours and a Half

Maximum : 80 Marks

**Part A***Answer all questions.*

1. Define Financial Management
2. What is Financial Plan ?
3. What is Gross Working Capital ?
4. Briefly explain Point of Indifference.
5. Explain briefly Net Income Theory.
6. What is Degree of Financial Leverage ?
7. What is Cash Dividend ?
8. Explain Capital Budgeting.
9. What is EOQ ?
10. What is Capital Rationing ?
11. Define the Concept of Cost of Capital.
12. What is Leverage ?
13. What is Capital Expenditure Budget ?
14. Explain Pay Back Period.
15. What is Hard Core Working Capital ?

(15 × 2 = 30 Maximum ceiling 25 Marks)

**Turn over**

**Part B***Answer all questions.*

16. Explain the Significance of Cost of Capital.
17. Explain the Advantages of Maintaining Adequate Working Capital.
18. Write Note on Various Steps in Capital Budgeting ?
19. A company has the following capital structure :

Equity Share Capital	...	Rs. 1,00,000
10 % Preference Share Capital	...	Rs. 1,00,000
8 % Debentures	...	Rs. 1,25,000

The present EBIT is Rs. 50,000. Calculate the Financial Leverage assuming that company is in 50 % tax bracket.

20. The current market price of an equity share of a company is Rs. 90. The current dividend per share is Rs. 4.50. In the case the dividends are expected to grow at the rate of 7 %. Calculate the cost of equity capital.
21. Calculate the optimum production quantity per production run from the following information.
- |                                  |     |              |
|----------------------------------|-----|--------------|
| Estimated Annual Production      | ... | 90,000 units |
| Set up cost per production run   | ... | Rs. 50       |
| Carrying cost per unit per annum | ... | Re. 1.       |
22. A project requires an investment of Rs. 5,00,000 and has a scarp value of Rs. 20,000 after five years It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs.6 0,000, Rs. 70,000 and Rs. 20,000. Calculate the average rate of return on investment.
23. Explain the Objectives of Financial Management.

(8 × 5 = 40 Maximum ceiling 35 Marks)

**Part C***Answer any two questions.*

24. What is capital Structure ? What factors would you take into consideration in determining capital structure decision ?

25. ABC Ltd. Sells its products on a gross profit of 20 % on sales. The following information is extracted from its annual accounts for the year ended 31<sup>st</sup> March 2008 :

Sales (3 months credit)	...	Rs. 40,00,000
Raw Materials	...	Rs. 12,00,000
Wages (15 days in arrears)	...	Rs. 9,60,000
Manufacturing Expenses (one month in arrears)	...	Rs. 12,00,000
Administrative Expenses (one month in arrears)	...	Rs. 4,80,000
Sales promotion expenses (payable half yearly)	...	Rs. 2,00,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of raw materials and one half months finished goods. Cash balance is maintained at Rs. 1,00,000 as a precautionary balance. Assuming a 10 % margin, find out the working capital requirements of ABC Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit margin.

26. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10 % :

	Project X	Project Y
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 Years	5 Years
Scrap Value	Rs. 1,000	Rs. 2,000

The projects before depreciation and after taxes (cash flows) are as follows :

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

27. What is cost of capital ? Explain the significance of cost of capital ?

(2 × 10 = 20 marks)

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**THIRD SEMESTER (CBCSS—UG) DEGREE EXAMINATION, NOVEMBER 2022**

B.B.A.

BBA 3B 05—FINANCIAL MANAGEMENT

(2019 Admission onwards)

Time : Two Hours and a Half

Maximum : 80 Marks

**Part A***Answer all questions.*

1. What is weighted average cost of capital ?
2. What are the costs associated with receivables ?
3. What does stock dividend mean ?
4. What is time value of money ?
5. What is capital gearing ?
6. What do you mean by IRR ?
7. Distinguish between gross working capital and net working capital.
8. Define Financial Management.
9. What is operating cycle ?
10. What is capital rationing ?
11. What do you mean by stock split ?
12. What is rights issue ?
13. Briefly explain FIFO method.
14. What is re-ordering level ?
15. What is EPS ?

(15 × 2 = 30 Maximum ceiling 25 Marks)

**Turn over**

**Part B***Answer all questions.*

16. What do you mean by capital structure ? What are the factors which determine optimum capital structure of a firm ?
17. Explain the functional areas of financial management.
18. Enumerate the assumptions of MM hypothesis of the irrelevance theory of dividend.
19. Determine the payback period of a project which requires an initial outlay of Rs. 1,00,000 and generates cash inflow of Rs. 20,000, Rs. 30,000, Rs. 40,000, Rs. 50,000 and Rs. 30,000 in the first five financial years.
20. From the following information, calculate operating and financial leverages :

Sales	...	10,50,000
Variable cost	...	7,67,000
Fixed cost	...	75,000
EBIT	...	2,08,000
Interest	...	1,10,000
Taxes (30%)	...	29,400
Net income	...	68,600

21. A company provides the following information :
- The carrying costs per unit of inventory are Rs. 10.
  - The fixed costs per order are Rs. 20.
  - The number of units required is 30,000 per year.
  - The variable costs per unit ordered are Rs. 2.
  - The purchase price per unit is Rs. 30.

Determine the Economic Order Quantity (EOQ).

22. From the following information, calculate average collection period :

		Rs.
Total sales	...	1,00,000
Cash sales	...	20,000
Sales return	...	7,000
Debtors at the end of the year...		11,000
Bills Receivable	...	4,000
Creditors	...	15,000

23. A public limited company offers to its existing shareholders the right to buy one share at the rate of Rs.12 per share for every four shares of Rs.10 each held in the company. The market value of the shares on the date of such offer is Rs. 24 per share. Calculate the value of rights.

(8 × 5 = 40 Maximum ceiling 35 Marks)

### Part C

*Answer any two questions.*

24. Explain the various factors which influence the dividend decision of a firm.
25. Prepare income statements from the following information collected from the records of two companies A and B :

<i>Particulars</i>	A	B
Variable expenses as a percentage of sales ...	66.67	50
Interest expenses	...	200
Degree of operating leverage	...	5
Degree of financial leverage	...	3
Income tax rate	...	35

**Turn over**

26. A company has an investment opportunity costing Rs. 40,000 with the following net cash flow after taxes and before depreciation :

Year	P.V. of Re.1 at 10%	P.V. of Re.1 at 15%	Net cash flow
1	0.909	0.870	7,000
2	0.826	0.756	7,000
3	0.751	0.658	7,000
4	0.683	0.572	7,000
5	0.621	0.497	7,000
6	0.564	0.432	8,000
7	0.513	0.376	10,000
8	0.467	0.327	15,000
9	0.424	0.284	10,000
10	0.386	0.247	4,000

Using 10% as the cost of capital, determine the following :

- Payback period.
- Net Present Value at 10% discount factor.
- Profitability index at 10% discount factor.
- Internal rate of return with the help of 10% and 15% discount factor.

(2 × 10 = 20 marks)

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**THIRD SEMESTER (CBCSS—UG) DEGREE EXAMINATION  
NOVEMBER 2021**

B.B.A.

BBA 3B 05—FINANCIAL MANAGEMENT

(2019—2020 Admissions)

Time : Two Hours and a Half

Maximum : 80 Marks

**Section A***Answer at least ten questions.**Each question carries 3 marks.**All questions can be attended.**Overall Ceiling 30.*

1. Define financial management.
2. What do you mean by trading on equity ?
3. What is profitability index ?
4. What do you mean by sweat equity ?
5. Explain under capitalisation.
6. What is dividend pay-out ratio ?
7. What is combined leverage ?
8. What do you understand by stable dividend policy ?
9. What is VED analysis ?
10. Explain Internal Rate of Return.
11. What do you understand by weighted average cost of capital ?
12. What do you mean by retained earnings ?
13. What is capital structure ?
14. Define working capital.
15. What is economic order quantity ?

(10 × 3 = 30 marks)

**Turn over**



**Section B**

*Answer at least five questions.*

*Each question carries 6 marks.*

*All questions can be attended.*

*Overall Ceiling 30.*

16. Briefly explain ploughing back of profits. State its importance.
17. What are the different types of dividend policies ?
18. What are the different sources of working capital ?
19. Arjun Ltd. provides you the following information :

(a) Cost of machinery	... Rs. 1,90,000
(b) Installation expenses	... Rs. 10,000
(c) Useful life of the machine	5 years
(d) Salvage value	... Nil
(e) Tax rate	... 30 %

Calculate the payback period if earnings after tax are Rs. 1,00,000 per annum.

20. The following information is available in respect of a product.
- |                            |                  |
|----------------------------|------------------|
| (a) Units sold             | ... 60,000       |
| (b) Selling price per unit | ... Rs. 12       |
| (c) Fixed cost             | ... Rs. 60,000   |
| (d) Variable cost per unit | ... Rs. 6        |
| (e) 10 % debt capital      | ... Rs. 1,20,000 |

Calculate all types of leverages.

21. A company issues 10,000, 10 % preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued (a) At par ; (b) At a premium of 10 % ; and (c) at a discount of 5 %.

22. The initial cash outlay of a project is Rs. 1,00,000 and it generates cash inflows of Rs. 40,000, Rs. 30,000, Rs. 50,000 and Rs. 20,000 in the first four years. Calculate profitability index :

Years	Discount factor at 10 %
1	0.909
2	0.826
3	0.751
4	0.683

23. Star Ltd. Provides the following information :

Cash sales during the year	...	1,50,000
Credit sales during the year	...	2,70,000
Returns inward	...	20,000
Trade debtors in the beginning	...	55,000
Trade debtors at the end	...	45,000
Provision for bad and doubtful debts	...	5,000

Calculate debtors turnover ratio and average collection period.

(5 × 6 = 30 marks)

### Section C

*Answer any two questions.  
Each question carries 10 marks.*

24. Define financial management. Discuss the scope and importance of financial management.
25. From the following information, you are required to prepare a cash budget to make an assessment of the working capital requirement of ABC Ltd for the period April to June 2018 :

Month	Sales	Purchases	Wages
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

**Turn over**

## Additional information

- (a) 50 per cent of sales are realised in the month following the sales and remaining 50 per cent in the second month following.
  - (b) Creditors are paid in the month following the month of purchase.
  - (c) Wages are paid in the next month.
  - (d) Cash at bank on 01.04.2018 Rs. 25,000
26. Mahesh Ltd. has equity share capital of Rs. 10,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 6,00,000 for expansion. The company plans the following financing schemes.
- (a) All equity shares
  - (b) Rs. 2,00,000 in equity shares and Rs. 4,00,000 in debentures at 10 % p.a.
  - (c) All debentures at 10 % p.a.
  - (d) Rs. 2,00,000 in equity shares and Rs. 4,00,000 in preference shares at 8 % dividend. The company has estimated EBIT at Rs. 3,00,000. The corporate tax is 50 %. Calculate EPS in each case and comment as to which capital structure is suitable.

(2 × 10 = 20 marks)

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THIRD SEMESTER (CBCSS—UG) DEGREE EXAMINATION, NOVEMBER 2020

B.B.A.

BBA 3B 05—FINANCIAL MANAGEMENT

Time : Two Hours and a Half

Maximum : 80 Marks

**Section A**

*Answer at least ten questions.*

*Each question carries 3 marks.*

*All questions can be attended.*

*Overall Ceiling 30.*

1. What is the fundamental principle of finance ?
2. What is capital budgeting ?
3. What is the difference between gross working capital and networking capital ?
4. What do you mean by cost of capital ?
5. What do you understand by post pay-back profitability ?
6. Distinguish between operating and financial leverage.
7. What is capital rationing ?
8. Explain the net operating income approach.
9. What is factoring ?
10. What is accounting rate of return ?
11. Explain scrip dividend.
12. What is composite leverage ?
13. What is stock split ?
14. Explain lock box system.
15. What is ABC analysis ?

(10 × 3 = 30 marks)

**Turn over**

### Section B

*Answer at least five questions.*

*Each question carries 6 marks.*

*All questions can be attended.*

*Overall Ceiling 30.*

16. Discuss the steps involved in capital budgeting process.
17. What are the factors determining working capital requirements of a firm ?
18. Explain the functions of financial management.
19. The cost of goods sold of Sunrise Ltd. is Rs. 5,00,000. The opening inventory is Rs. 40,000 and closing inventory is Rs. 60,000. Find out inventory turnover ratio.
20. A company has sales of Rs. 5,00,000, variable costs Rs. 3,00,000, fixed costs Rs. 1,00,000 and long term loans of Rs. 4,00,000 at 10% rate of interest. Calculate composite leverage.
21. A project costs Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12% p.a. but before tax of 50%. Calculate pay-back period.
22. A company issues 10,000 10% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital.
23. A firm expects a sale of 90,000 units, which it purchased for Rs. 3 per unit. The order cost is Rs. 300 and the firm's carrying cost is Rs. 6 per unit. What is the Economic Order Quantity ?

(5 × 6 = 30 marks)

### Section C

*Answer any two questions.*

*Each question carries 10 marks.*

24. Define Capital Structure. What are the principal determinants on the capital structure of a firm ? Explain the important theories of capital structure.
25. A company is considering an investment proposal to install a new machinery at a cost of Rs. 2,50,000. It has a life expectancy of 5 years and has no salvage value. The tax rate is 40%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before tax and after depreciation (CFBT) from the investment proposal are as follows :

Year	CFBT	P.V. Factor at 10%
1	Rs. 60,000	0.909
2	Rs. 70,000	0.826
3	Rs. 90,000	0.751
4	Rs. 1,00,000	0.683
5	Rs. 1,50,000	0.621

You are required to compute :

- (i) Average rate of return.
- (ii) NPV at 10% discount rate.
- (iii) Profitability index at 10% discount rate.

26. P Ltd has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further capital of Rs. 3,00,000 for expansion. The company plans following schemes.

- a) All common stock.
- b) Rs. 1,00,000 Equity shares and Rs. 2,00,000 in 10% Debentures.
- c) Rs. 1,00,000 in Equity shares and Rs. 2,00,000 in 8% Preference share capital.

Company's EBIT is Rs. 1,50,000 and corporate tax is 50%. Determine EPS in each plan and comment on the best alternative.

(2 × 10 = 20 marks)