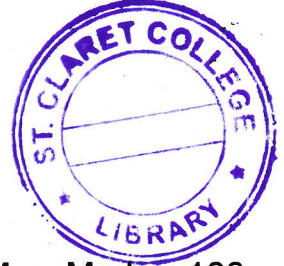




US – 563

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IV Semester B.B.M. Examination, May 2017  
(Repeaters) (Prior to 2013-14)  
**BUSINESS MANAGEMENT**  
Paper – 4.4 : Financial Management



Time : 3 Hours

Max. Marks : 100

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

SECTION – A

I. Answer **any eight** of the following sub questions. **Each** sub question carries **two** marks. (8×2=16)

- 1) a) What do you mean by trade credit ?  
b) What is financial management ?  
c) What do you understand by pay back period ?  
d) Mention any two merits of ARR.  
e) What is dividend ?  
f) Define inventory management.  
g) What do you mean by speculative motive of holding cash ?  
h) What is cash budget ?  
i) Calculate average investment if initial investment is ₹ 7,50,000, scrap value ₹ 1,00,000, working life is 5 years, additional working capital ₹ 50,000.  
j) Market price of share is ₹ 90 and growth rate of dividend is 12%. The EPS is ₹ 18. Find out the cost of retained earnings.

SECTION – B

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

- 2) Discuss in detail functions of capital market.
- 3) List out the merits of equity share as a source of long term financing.
- 4) Give a brief note on importance of cash management.

P.T.O.



5) Calculate operating and financial leverage from the data given below.

Sales	₹ 1,00,000 units @ ₹ 2 per unit
Variable cost	₹ 0.70 per unit
Fixed cost	₹ 1,00,000
Interest on loan	₹ 3,668

6) Analyse the significance of dividend policy.

### SECTION – C

III. Answer **any four** of the questions. **Each** question carries **fifteen** marks. **(4×15=60)**

7) Explain in detail the goals of financial management.

8) Discuss in detail factors influencing capital structure.

9) Following information is obtained from XYZ Company, which has three different situations A, B, C and Financial plans I, II and III. Calculate financial, operating and combined leverage.

Total capacity of project	10,000 units
Sales	7,500 units
Selling price	₹ 20 per unit
Variable cost	₹ 15 per unit
Fixed cost situation	A = ₹ 10,000 B = ₹ 20,000 C = ₹ 25,000

Financial plan I, ₹ 50,000 equity and ₹ 40,000 debt @ 10% interest

II, ₹ 60,000 equity and ₹ 30,000 debt @ 10% interest

III, ₹ 30,000 equity and ₹ 60,000 debt @ 10% interest.

10) A company's capital structure consists of

Equity share of ₹ 100 each	₹ 10,00,000
Retained earnings	₹ 5,00,000
9% preference shares	₹ 6,00,000
7% debentures	₹ 4,00,000
<b>Total</b>	<b>₹ 25,00,000</b>



Company earns 12% on its capital income tax rate is 50%, company requires a sum of ₹ 12,50,000 to finance its expansion programme for which following alternatives are available.

- a) Issue of 10,000 equity shares @ ₹ 25 per share.
- b) Issue of 10% preference shares
- c) Issue of 8% debentures.

It is estimated that P/E ratio of equity, preference and debentures would be 21.4, 17 and 15.7 respectively.

Which of the three alternatives would you recommend and why ?

- 11) Company is considering to purchase a machine two alternative machines are available each costing ₹ 50,000. Earnings after tax are expected to be

**Estimated Net Cash Flows**

Year	Machine X(₹)	Machine Y(₹)
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to

- a) Pay back period
- b) Return on investment
- c) Net present value @ 10%

The discount factors @ 10% is as under

Year	1	2	3	4	5
Df @ 10%	0.909	0.826	0.751	0.683	0.621