# IV Semester B.B.M. Examination, May/June 2014 (Prior to 2012-13) (Repeaters) BUSINESS MANAGEMENT

Paper – 4.4 : Financial Management

Time : 3 Hours Max. Marks : 90

Instruction: Answer all the questions in English only.

### SECTION - A

- 1. Answer any ten sub-questions. Each sub-question carries two marks. (10×2=20)
  - a) Define Financial Management.
  - b) What is meant by Wealth Maximisation?
  - c) Give the meaning of Capitalisation.
  - d) What is meant by Trading on equity?
  - e) What is meant by "Factoring"?
  - f) What is Dividend decision?
  - g) Mention any two objects of Working Capital Management.
  - h) Give the meaning of secondary market.
  - i) What do you mean by IRR?
  - j) State any four components of current assets.
  - k) Find out the NPV for a project which requires an initial investment of Rs. 50,000 and which involves a net cash flow of ₹ 10,000 each year for 5 years. Cost of capital is 10%. There is no scrap value (P.V. of annuity of ₹ 1 for 5 years at 10% is 3.791).
  - I) Calculate the degree of operating leverage for the following:

Sales

₹20,00,000

Variable cost

₹ 14,00,000

Fixed cost

₹ 4,00,000

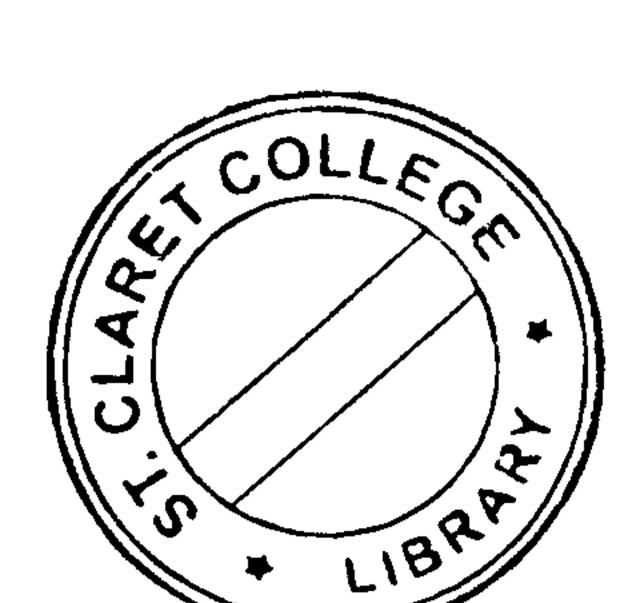
#### SECTION - B

Answer any five questions. Each question carries 5 marks.

 $(5 \times 5 = 25)$ 

- 2. Briefly explain the functions of Capital Market.
- 3. Point out the merits and demerits of pay back period method.
- 4. Factoring reduces the burden of credit sales Elucidate.

P.T.O.



- 5. Briefly explain the decisions in Financial Management.
- 6. Discuss the importance of 'Cash Management'.
- 7. Briefly explain the objectives of Bonus Share.
- 8. A company has sales of ₹ 75,00,000; Variable Cost of ₹ 42,00,000/- and Fixed Cost of ₹ 6,00,000. It has a debt of ₹ 45,00,000 at 9%.
  - Calculate the operating, financial and combined leverages of the firm.
- 9. A project requires an investment of ₹ 6,00,000 and has the scrap value of ₹ 30,000, after 5 years. Its net earnings after taxes are ₹ 50,000, ₹ 70,000 ₹ 80,000, ₹ 60,000 and ₹ 10,000 respectively for 5 years. Calculate the average rate of return on the investment.

#### SECTION - C

Answer any three questions. Each question carries 15 marks.

 $(3\times15=45)$ 

- 10. Explain the factors influencing capital structure of a company.
- 11. Explain the different sources of long term finance.
- 12. Explain the objectives of financial management.
- 13. Madhu Ltd. is considering replacement of an existing machine. The company has two alternatives Machine A and Machine B. The cash inflows from the two alternatives are as follows:

	Machine A	Machine B
	(₹)	(₹)
Cost of the Machine	25,00,000	40,00,000
Cash Inflows (₹)		
Year 1	<del></del>	10,00,000
2	5,00,000	14,00,000
3	20,00,000	16,00,000
4	14,00,000	17,00,000
5	14,00,000	15,00,000



The company's cost of capital is 10%. You are required to appraise the machine by calculating the following:

- i) Pay Back Period
- ii) Net Present Value @ 10%.

Also advice the management about the proposed investment.

P.V. factors of ₹ 1/- @ 10% discount rate:

 Year
 1
 2
 3
 4
 5

 P.V. factors
 0.909
 0.826
 0.751
 0.683
 0.631

14. The following figures related to two companies:

Particulars	X Ltd.	Y Ltd.
	₹	₹
Sales	5,00,000	10,00,000
Variable Cost	2,00,000	3,00,000
Fixed Cost	1,50,000	4,00,000
Interest	50,000	1,00,000

## Calculate:

- a) Operating, financial and combined leverages of the two companies and
- b) Comment on the relative position of the companies in respect of the risk.