3¶ (A)

MS – 447

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).
   l) 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. **(5×5=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.

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. **(3×15=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	–	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.