

IV Semester B.B.A. Examination, August/September 2023
(NEP)
BUSINESS ADMINISTRATION
Paper – 4.3 : Financial Management

Time : 2½ Hours

Max. Marks : 60

Instruction : Answer should be written in **English** only.

SECTION – A

Answer any six sub-questions. Each sub-question carries 2 marks. (6×2=12)

1. a) What is Financial Management ?
- b) What is investment decision ?
- c) Define capital structure.
- d) What do you mean by operating leverage ?
- e) What is net present value method ?
- f) What is scrip dividend ?
- g) Give the meaning of operating cycle.
- h) A project requires an initial investment of ₹ 1,00,000 and yields an annual cash inflow of ₹ 20,000 for 7 years. Calculate pay back period.

SECTION – B

Answer any three questions. Each question carries four marks. (3×4=12)

2. Explain the key differences between profit maximisation and wealth maximisation.
3. List any four advantages of adequate working capital.
4. Explain the features of capital budgeting.
5. The following information is available in respect of a firm
 - a) Capitalisation rate 10%
 - b) Earnings per share ₹ 50
 - c) Assumed rate of return on investments 12%Show the effect of dividend policy on market price of shares applying Walter formula when dividend pay out ratio is 40%.

6. A company has sales of ₹ 20,00,000, variable cost of ₹ 14,00,000, fixed cost of ₹ 4,00,000 and debt of ₹ 10,00,000 at 12% rate of interest. What are the operating leverage and financial leverage ?

SECTION – C

Answer any three questions. Each question carries twelve marks. (3×12=36)

7. Explain the functions of financial management.
8. Explain briefly the various determinants of working capital.
9. A firm's cost of capital is 10%. It is considering two mutually exclusive projects X and Y. The details are given below :

	Year	Project 'X'	Project 'Y'
		₹	₹
Investment		<u>70,000</u>	<u>70,000</u>
Net cash flow	1	10,000	60,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000
		1,65,000	1,40,000

Compute :

- Pay back period
- Net present value

P.V. factor at 10% for 5 years.

Year	:	1	2	3	4	5
P.V. factor @ 10%	:	0.909	0.826	0.751	0.683	0.621



10. The capital structure of ABC Ltd. consists of the following securities.

10% Debentures ₹ 5,00,000

12% preference shares ₹ 1,00,000

Equity shares of ₹ 100 each ₹ 4,00,000

Operating profit (EBIT) of ₹ 1,60,000 and the company is in 50% tax bracket.

- i) Determine the company's EPS.
- ii) Determine the percentage change in EPS associated with 30% increase and 30% decrease in EBIT.
- iii) Determine the financial leverage.

11. Calculate the average rate of return for projects A and B from the following :

	Project A		Project B		
Investments	₹ 20,000		₹ 30,000		
Expected life	4 years		5 years		
Projected net income (after interest, depreciation and taxes)					
Years :	1	2	3	4	5
	₹	₹	₹	₹	₹
Project A :	2,000	1,500	1,500	1,000	-
Project B :	3,000	3,000	2,000	1,000	1,000

If the required rate of return is 12%, which project should be undertaken ?
