SUB.CODE: 18UBA6C14

REG.NO:

DHANALAKSHMI SRINIVASAN COLLEGE
OF ARTS & SCIENCE FOR WOMEN
(AUTONOMOUS)

(For Candidates admitted from 2018-2019 onwards)

UG DEGREE EXAMINATIONS APRIL – 2021

B.B.A – BUSINESS ADMINISTRATION

FINANCIAL MANAGEMENT

Time: 3 Hrs **Max.Marks: 75**

PART – A

CHOOSE THE CORRECT ANSWER. **(10*1=10)**

1. Financial management is primarily concerned with --------------
   a) Efficient management of the business b) Procurement and utilization of finance
   c) Arrangement of funds d) None of the above
2. The objective of wealth maximization takes into account -----------------
   a) Amount of returns expected b) Timing of anticipated returns
   c) Risk associated with uncertainty of returns d) All of the above
3. Cost of capital refers to ------------------
   a) The cost of funds raised by the company b) Minimum expected return
   c) Return on investment d) All of these
4. Cost of capital is the _____ rate of return expected by its investors
   a) Minimum b) Maximum c) Equal d) higher
5. Operating Leverage is the response of changes in _____________.
   a) EBIT to the changes in sales b) EPS to the changes in EBIT
   c) Production to the changes in sales. d) None of the above.
6. Degree of total leverage can be applied in measuring change in _________.
   a) EBIT to a percentage change in quantity
   b) EPS to a percentage change in EBIT
   c) EPS to a percentage change in quantity
   d) Quantity to a percentage change in EBIT
7. Financial Statements are meaningful and useful only when they are
   a) Verified b) Presented to owners
   c) Published d) Analysed and Interpreted

8. 'Cash flow' includes

a) Cash receipts only
b) Cash payments only
c) Cash receipts and payments
d) Non cash income

9. Cash budget consist of

a) Receipts and payments
b) Receipts only
c) Payments only
d) None of the above

10. The values of future net incomes discounted by the cost of capital are called

a) Average capital cost
b) Discounted capital cost
c) Net capital cost
d) Net present values

PART – B

ANSWER ALL THE QUESTIONS. **(5*7=35)**

11. a) "The objective of wealth maximisation is superior to profit maximisations" – Do you agree?

(OR)

b) Examine the scope of financial Management.

12. a) A firm issues debentures of Rs.1,00,000 and realizes Rs.98,000 after allowing 2% commission to brokers. The debentures carry an interest rate of 10%. The debentures are due for maturity at the end of the 10^{th} year. Calculate the effective cost of debt before tax.

(OR)

b) (Issued at par, Redeemable at premium): Kala Ltd., has issued 12,000 12% Preference shares of Rs.100 each. The shares are redeemable after 10 years at a premium of 10%. Flotation costs are 4%. Calculate the effective cost of redeemable preference share capital.

13. a) Compute the Operating, financial and combined leverages from the given data:

i. Sales 50,000 units at Rs.12 Per Unit.
ii. Variable cost at Rs.8 Per Unit.
iii. Fixed cost Rs.90,000 (including 10% interest on Rs.2,50,000).

(OR)

b) Calculate the market price of a share of ABC Ltd., under

(i).Walter's formula, and

(ii) Dividend growth model from the following data:

Earnings per share	Rs.5
Dividend per share	Rs.3
Cost of Capital	16%
Interest rate of return on investment	20%

14. a) From the following details find out

a) Current Assets

b) Current Liabilities

c) Liquid Assets and

d) Stock

Current Ratio: 2:5; Liquid : 1:5 ; Working Capital : Rs. 90,000

(OR)

b) From the following two balance sheets as at March 31, 2019 & 2020, you are required to prepare a funds flow statement.

Liabilities	2019 Rs.	2020 Rs.	Assets	2019 Rs.	2020 Rs.
Share capital	40,000	45,000	Cash	30,000	47,000
Trade creditors	10,000	23,000	Debtors	1,20,000	1,15,000
P & L a/c	2,30,000	2,50,000	Stock-in-trade	80,000	90,000
			Land	50,000	66,000
	2,80,000	**3,18,000**		**2,80,000**	**3,18,000**

15. a) The following are the particulars relating to a project.

Cost of the project Operating Savings:	Rs.50,000
1st Year	5,000
2st Year	20,000
3st Year	30,000
4st Year	30,000
5st Year	10,000

i) Calculate pay-back period ignoring interest factor and

ii) discount pay-back period taking into account interest factor at 10%

(OR)

b) What are the Importance of Capital Budgeting?

PART – C

ANSWER ANY THREE QUESTIONS. **(3X10=30)**

16. Explain the various functions of finance.

17. ABC Ltd., estimate the cost of equity and debt components of its capital for different level of debt – equity mix as follows:

Debt as % of total capital	**Cost of equity %**	**Cost of equity % (Before tax)**
0	16	12
20	16	12
40	20	16
60	24	20

Suggest the best debt – equity mix for the company. Tax rate applicable to the company is 50%. Show workings.

18. Explain the factors that influence the dividend policy of a firm.

19. From the following Balance Sheets of Apple Ltd. on 31st December 2018 and 2019 you are required to prepare cash flow statement.

Liabilities	**2018 Rs.**	**2019 Rs.**	**Assets**	**2018 Rs.**	**2019 Rs.**
Share capital	1,00,000	1,00,000	Goodwill	12,000	12,000
General reserve	14,000	18,000	Building	40,000	36,000
P& L a/c	16,000	13,000	Plant	37,000	36,000
Sundry creditors	8,000	5,400	Investment	10,000	11,000
Bills payable	1,200	800	Stock	30,000	23,400
Provision for taxation	16,000	18,000	Bills receivable	2,000	3,200
Provision for doubtful debts	400	600	Cash	6,600	15,200
	1,55,600	**1,55,800**		**1,55,600**	**1,55,800**

The following additional information has also been given:

1. Depreciation charged on plant was Rs. 4000.
2. Provision for taxation of Rs. 19000 was made during 2019.

20. A Ltd., Company is considering investing in a project, requiring a capital outlay of Rs.2,00,000. Forecast for annual income after depreciation but before tax is as follows:

Year	Rs.
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken at 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods.

a) Pay- back method

b) Rate of Return on Original Investment

c) Rate of Return on Average Investment

d) Discounted cash flow method, taking cost of capital at 10%

e) Excess Present Value Index.