D4BBA1802 (S4) (PAGES 3) Reg. No..............................

Name: ....

FOURTH SEMESTER UG DEGREE EXAMINATION, APRIL 2024

(Supplementary - 2018 Admission)

BBA

ABBA4B06T: FINANCIAL MANAGEMENT

Time: 3 Hours **Maximum Marks: 80**

PART A. Answer *all* the questions. Each carries 1 mark.

Choose the correct answer.

1. Which of the following is not used in Capital Budgeting?
   A) Cash Flows B) Net Assets Method
   C) Sensitivity Analysis D) Time Value of Money
2. Firm's Cost of Capital is average cost of:
   A) ALL sources B) All borrowings
   C) Share Bonds & Debentures D) Share capital
3. Cost of issuing new shares to the public is known as:
   A) Cost of Equity B) Cost of Capital C) Marginal Cost of Capital. D) Flotation Cost
4. Operating Leverage is calculated as:
   A) Contribution ÷ EBIT B) EBIT ÷Tax C) EBIT ÷Interest D) EBIT÷PBT
5. In case of Net Income Approach, the Cost of equity is:
   A) decreasing B) constant C) increasing D) none of the above.

Fill in blanks.

6. If 'r' = 'Ke', then MP by Walter's Model and Gordon's Model for different payout ratios would be ------
7. Ageing schedule incorporates the relationship between --------- and ----------------
8. If A = Annual Requirement, O = Order Cost and C = Carrying Cost per unit per annum, then EOQ = ------
9. Risk in Capital budgeting implies that the decision-maker knows --------- of the cashflows.
10. Working Capital Turnover measures, the relationship of Working Capital with ---------

(10 × 1 = 10 Marks)

(PTO)

PART B: Answer any *eight* questions. Each carries 2 marks.

11. What is Time Value of Money?
12. What are the different types of working capital?
13. What is Financial Leverage?
14. A firm 's cost of equity (Ke) is 18%, the average income tax rate of shareholder is 30% and brokerage cost of 2% is expected to be incurred while investing their dividends in alternative securities. Compute the cost of retained earnings.
15. What do you mean by profitability Index?
16. What is optimal Capital structure?
17. Define Financial Management.
18. Explain the term Capital budgeting.
19. What is working capital management?
20. Explain Investment Decision.

(8 × 2 = 16 Marks)

PART C: Answer any *six* questions. Each carries 4 marks.

21. Project Cost ₹ 1,10,000 Cash Inflows:

Year 1	₹ 60,000
Year 2	₹ 20,000
Year 3	₹ 10,000
Year 4	₹ 50,000

Calculate the Internal Rate of Return

22. A company issued ₹ 1,00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amount to ₹ 3, 000. The debentures are redeemable after 5 years. Compute before - tax and after – tax cost of debt. The tax rate is 50%
23. What are the steps in the Capital Budgeting?
24. From the following details, calculate the market value of equity shares of a firm by using Walter's model: Earnings per share (E) = Rs.5; Dividend per share (D) = Rs.3; Rate of return on Investment (r) = 10%; Cost of capital (k) = 10%
25. Explain the term Wealth Maximisation.
26. Explain the Relevance Concept of Dividend.
27. A Company Limited is expecting an annual EBIT of Rs. 2,00,000. The company has Rs. 5,00,000 in 10% debentures. The cost of equity capital or capitalization rate is 12.5%. Computethe value of the firm.
28. Financial Leverage is a 'two-edged sword' -Explain

(6 × 4 = 24 Marks)

PART D: Answer any *two* questions. Each carries 15 marks.

29. Company earns a profit of ₹3,00,000 per annum after meeting its interest liability of ₹ 1,20,000 on its 12% debentures. The tax rate is 50%. The number of Equity Shares of 10 each are 80,000 and the retained earnings amount to ₹12,00,000. The Company proposes to take up an expansion scheme for which a sum of ₹4,00,000 is required. It is anticipated that after expansion, the Company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or through the issue of Equity shares at par. You are Required to:
    1. Compute the EPS if additional funds were raised by way of (a) Debt; (b) Equity Shares.
    2. Advise the Company as to which source of finance is preferable.

30. ABC Ltd. (in 40% Tax bracket) has the following book value capital structure:

    Equity Capital (in shares of 10 each, fully paid-up at par) ₹15 Crores

    11% Preference Capital (in shares of 100 each, fully paid-up at par) ₹1 Crore

    Retained Earnings 13.5% ₹ 20 Crores.

    Debentures (of 100 each) ₹10 Crores.

    15% Term Loans ₹12.5 Crore.

    The next expected dividend on Equity Shares is ₹3.60 per share. Dividends are expected to grow at 7% and the Market price per share is ₹40. Preference Stock, redeemable after ten years, is currently selling at ₹75 per share. Debentures, redeemable after 6 years, are selling at 80 per debenture. You are required:

    i. Compute the present WACC using;

       (a) Book Value Proportions and (b) Market Value Proportions.

    ii. Compute the weighted Marginal Cost of Capital if the Company raises ₹10 Crores next year, given the following information.

       - The amount will be raised by equity and debt in equalproportions.
       - The Company expects to retain ₹1.5 Crores earnings next year.
       - The additional issue of Equity Shares will result in the net price per share being fixed at ₹32.
       - The Debt capitalraised by way of Term Loans will cost 15% for the first ₹2.5 Crores and 16% for the next ₹2.5 Crore.

31. What is Working Capital Management? Explain the factors determining the working capital requirements.

(2 × 15 = 30 Marks)