IV Semester B.B.A. Examination, September/October 2023
(CBCS Scheme) (Repeaters)
BUSINESS ADMINISTRATION
Paper – 4.4 : Financial Management

Time : 3 Hours Max. Marks : 70

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

SECTION – A

1. Answer **any five** sub-questions. **Each** carry **two** marks. **(5×2=10)**

   a) What is Business Finance ?

   b) Mention various financial decisions.

   c) What is trading on equity ?

   d) What is cost of capital ?

   e) What is time value of money ?

   f) What is meant by property dividend ?

   g) Define Capital Budgeting.

   h) Fixed cost is ₹ 45,000, Profit is ₹ 31,500, Sales is ₹ 1,34,100. Calculate Contribution.

SECTION – B

Answer **any three** questions. **Each** carry **six** marks. **(3×6=18)**

2. Briefly explain the concept of optimum capital structure.

3. What are the various types of dividends ? Explain.

4. What are the objectives of Financial Management ?

5. A firm has sales of ₹ 3,00,000, variable cost of ₹ 1,25,000, fixed cost of ₹ 50,000 and debt of ₹ 1,00,000 at 10% interest. Calculate Operating, Financial and Combined leverage.

P.T.O.

6. A company is requiring a machine which requires an investment of ₹ 2,40,000. The Net Income Before Tax and Depreciation (NIBTD) is estimated as follows :

Year	1	2	3	4	5
NIBTD (₹)	84,000	72,000	45,000	96,000	1,20,000

Depreciation is to be charged on straight line basis. Tax rate is 30%.
Calculate ARR.

SECTION – C

Answer **any three** questions. **Each** carry **fourteen** marks. **(3×14=42)**

7. Explain the various sources of funds available to a Company.

8. Briefly explain the objectives of a Financial Plan.

9. Briefly explain the functions of a Finance Manager.

10. A company is considering a proposal to purchase a new equipment. The equipment would involve a cash outlay of ₹ 30,00,000 and working capital of ₹ 3,60,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purpose.

The estimated income before tax cash inflows are as follows :

Year	1	2	3	4	5
Cash inflows before tax (₹)	10,80,000	13,20,000	11,40,000	10,20,000	8,40,000

Income Tax rate is 35%. The opportunity cost of capital is 10%. Calculate :

a) Payback Period.

b) Net Present Value.

c) Internal rate of return.

PV factors at 10%, 13% and 15% are as follows :

Year	PV Factors		
	10%	13%	15%
1	0.909	0.885	0.870
2	0.826	0.783	0.756
3	0.751	0.693	0.658
4	0.683	0.613	0.572
5	0.621	0.543	0.497

11. A Company's capital structure consists of the following :

Equity Share Capital	₹ 10 Lakhs
Retained Earnings	₹ 5 Lakhs
9% Preference Shares	₹ 6 Lakhs
7% Debentures	₹ 4 Lakhs
Total	**₹ 25 Lakhs**

The company earns 12% on its capital. Income Tax rate is 50%. The company requires a sum of ₹ 12,50,000 to finance its expansion programme for which the following alternatives are available to it,

a) Issue of 10,000 equity shares

b) Issue of 10% preference shares

c) Issue of 8% debentures

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three alternatives would you recommend and why ?