DCBB – 404

IV Semester B.B.A. Examination, September/October 2023
(NEP – Freshers)
BUSINESS ADMINISTRATION
Financial Management

Time : 2.½ Hours Max. Marks : 60

***Instruction** : Should write the examination in **English only**.*

SECTION – A

1. Answer **any five** of the following, **each** question carries **2** marks. **(5×2=10)**
   a) Name the various types of working capital.
   b) State the types of leverages.
   c) Give the meaning of Time Value of Money.
   d) What is Optimum Capital Structure ?
   e) What do you mean by Net Present Value ?
   f) State any four objectives of Financial Plans.
   g) Give the meaning of Financial Management.

SECTION – B

Answer **any three** of the following questions, **each** question carries **4** marks. **(3×4=12)**

2. Explain the functions of a Finance Manager.

3. A company offers 12 percent rate of interest on deposits. What is the effective rate of interest if the compounding is done :
   i) half yearly ii) quarterly.

4. ABC Company has currently an all equity capital structure consisting of 15,000 equity shares of ₹ 100 each. The management of planning to raise another ₹ 25,00,000 to finance a major programme of expansion and is considering three alternative methods of financing :
   a) To issue 25,000 equity shares of ₹ 100 each
   b) To issue 25,000, 8% debentures of ₹ 100 each.

   The company's expected earnings before interest and taxes will be ₹ 8,00,000. Assuming a corporate tax rate of 35%, determine the Earnings Per Share (EPS) in each alternative and comment which alternative is best.

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5. The following information are available in respect of a product :

Units sold	:	30,000
Units sales price	:	₹ 10
Fixed charges	:	₹ 40,000
Variable cost per unit	:	₹ 6
Tax rate	:	50%
10% Debt capital	:	₹ 1,00,000

Calculate: Operating leverage, Financing leverage and Combined leverage.

6. Explain the importance of adequate working capital.

SECTION – C

Answer **any three** of the following questions, **each** question carries **10** marks. **(3×10=30)**

7. Briefly explain the factors influencing a sound financial plan.

8. The expected cash flows (before depreciation and after taxes) of a project are as follows :

Year	1	2	3	4	5
Cash inflows before depreciation and after taxes (₹)	20,000	30,000	40,000	50,000	30,000

Cost of investment is ₹ 1,00,000 . The cost of capital is 12%.

Calculate the following :

a) Payback period

b) Net present value

c) Probability index.

Note : PV factor at 12% discount as follows :

Year	1	2	3	4	5
PV Factor at 12%	0.893	0.797	0.712	0.636	0.567

9. A company has EBIT of ₹ 4,80,000 and its capital structure consists of the following securities :

Equity share capital (₹ 100)	₹ 4,00,000
12% Preference share capital	₹ 6,00,000
14% Debentures	₹ 10,00,000

The company is facing fluctuations in its sales. What would be the change in EPS :

a) If EBIT of the company increases by 25% ?

b) If EBIT of the company decreases by 25% ?

The corporate tax is 35%

10. Explain the factors determining working capital.

11. Briefly explain the different types of dividend policy.

SECTION – D

Answer **any one** of the following, **each** question carries **8** marks. **(1×8=8)**

12. KJ Ltd. is manufacturing trucks at its manufacturing unit in Chennai. The demand of its trucks is high as the economic growth is about 7% to 8%. The company has estimated a 20% increase in the demand of its trucks. It is planning to set up a new truck manufacturing unit. For this the company will require approximately ₹ 2,000 crores as Fixed capital and ₹ 500 crores as working capital. The company has already arranged for its fixed capital. State any four factors that the finance manager of the company should keep in mind while arranging its working capital.

13. From the following information, calculate the NPV of the two projects and suggest which project should be accepted assuming a discount rate of 10%.

Particulars	**Project X**	**Project Y**
Initial investment	₹ 20,000	₹ 30,000
Estimated life	5 years	5 years
Scrap value	₹ 1,000	₹ 2,000
Profit before depreciation after taxes (cash inflows) :		
1st Year	₹ 5,000	₹ 20,000
2nd Year	₹ 10,000	₹ 10,000
3rd Year	₹ 10,000	₹ 5,000
4th Year	₹ 3,000	₹ 3,000
5th Year	₹ 2,000	₹ 2,000

The PV factor at 10% discount rate is as follows :

Year	1	2	3	4	5
PV factor @ 10%	0.909	0.826	0.751	0.683	0.621