

IV Semester B.B.M. Examination, May/June 2014
 (Semester Scheme) (Freshers) (2013-14 and Onwards)
BUSINESS MANAGEMENT
 Paper – 4.4 : Financial Management

Time : 3 Hours

Max. Marks : 100

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

SECTION – A

Answer any **eight** sub-questions. Each sub-question carries **two** marks. **(8×2=16)**

1. a) State four broad decision areas of financial management.
- b) State two techniques for adjusting the time value of money.
- c) Mr. Investor is to receive from Indira Vikas Patra Rs. 20,000 after 5 years from now. His time preference for money is 10% p.a. Calculate its present value.
- d) A project costs Rs. 75,000 and yields an annual cash inflow of Rs. 15,000 for 8 years. Calculate the pay-back period.
- e) Define composite leverage.
- f) What is internal rate of return ?
- g) Give the meaning of Receivables Management.
- h) What is 'Stock Dividend' ?
- i) Give the meaning of 'Doubling period'.
- j) What is lock-box system ?

P.T.O.



SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks.

(3×8=24)

2. The following data relate to two companies :

Particulars	'X' Ltd. (in Rs. Lakh)	'Y' Ltd. (in Rs. Lakh)
Sales	500	1,000
Variable cost	<u>200</u>	<u>300</u>
Contribution	300	700
Fixed cost	<u>150</u>	<u>400</u>
EBIT	150	300
Interest	<u>50</u>	<u>100</u>
EBT	<u>100</u>	<u>200</u>

From the above details you are required to calculate the operating, financial and combined leverages for the two companies.

- Briefly explain the factors which influence the planning of the capital structure of a company.
- Examine the problems associated with excess and inadequate working capital.
- A company needs Rs. 10,00,000 after 5 years from now for replacement of its fixed assets. It has established a sinking fund for the purpose. The investments are to be made at the end of each year. What annual payment must be made to ensure the needed Rs. 10,00,000 after 5 years ? Assume 10% interest p.a. on investments.

SECTION – C

Each question carries **15** marks. Answer question No. **10 compulsorily** and **any three** from the remaining questions. (4×15=60)

- What is financial management ? Explain the objectives of financial management.
- Explain the factors which determine the dividend policy of a company.
- What is meant by working capital management ? Briefly explain the factors which determine the working capital needs of a firm.



9. Goodshape Company Ltd., has currently an ordinary share capital of Rs. 25,00,000, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20,00,000 to finance a major programme of expansion through one of three possible financing plans. The options are as under :

- A) Entirely through ordinary shares.
- B) 50% through ordinary shares and another 50% through long term borrowings @ 15% interest p.a.
- C) 50% through ordinary shares and another 50% through preference shares with 14% dividend.

The company's expected EBIT is Rs. 8,00,000. Assuming a tax rate of 30% determine EPS in each alternative.

10. A company is considering an investment proposal to instal a new machine. The project will cost Rs. 50,000 and will have a life of 5 years and no salvage value. The company's tax rate is 30% and no investment allowance is allowed. The firm uses straight line method of depreciation. The estimated net income before depreciation and tax are as follows :

Year	Net Income before depreciation and Tax
	Rs.
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following :

- 1) Pay-back period.
- 2) Average rate of return
- 3) NPV @ 10% discount rate
- 4) Profitability index @ 10%.

P.V. factors @ 10%. 0.909, 0.826, 0.751, 0.683, 0.621.