MS – 484

IV Semester B.B.A. Examination, May 2016
(CBCS) (Fresh) (2015-16 and Onwards)
BUSINESS ADMINISTRATION
Paper – 4.4 : Financial Management

Time : 3 Hours Max. Marks : 70

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

SECTION – A

Answer **any five** sub-questions of the following. **Each** sub-question carries **two** marks. **(5×2=10)**

1. a) What is cash dividend ?
   b) What is operating leverage ?
   c) State any two objectives of financial management.
   d) What is operating cycle ?
   e) Give the meaning of finance.
   f) What is optimum capital structure ?
   g) What is doubling period ?

SECTION – B

Answer **any three** questions of the following. **Each** question carries **six** marks. **(3×6=18)**

2. What are the advantages of Accounting rate of return method ?
3. What are the legal and financial aspects of a dividend policy ?
4. Briefly explain the characteristics of a sound financial plan.
5. Compare two companies in terms of operating leverages and financial leverages

	Firm – A	Firm – B
Sales	₹ 20,00,000	₹ 30,00,000
Variable cost	40% of sales	30% of sales
Fixed cost	₹ 5,00,000	₹ 7,00,000
Interest	₹ 1,00,000	₹ 1,25,000

   Interpret the results of the firm.

6. Calculate the future value of ₹ 6,000 for 4 years and the interest on it is compounded at 12% p.a. half yearly. Given $(1.06)^8 = 1.594$.

P.T.O.

SECTION – C

Answer **any three** questions of the following. **Each** question carries **fourteen** marks. **(3×14=42)**

7. Explain the functions of finance manager.
8. Explain the factors determining working capital.
9. Explain the different forms dividend policy practiced by companies.
10. Vihan company is considering to purchase a machine. Two machines are available X and Y costing ₹ 50,000 each. Earnings after taxation are expected to be as follows.

Year	**Machine – X**	**Machine – Y**
	₹	₹
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives according to

a) Pay back period method.

b) Net present value method.

Assume cost of capital at 10%. Depreciation is allowed under straight line method. The discount factor is as under

Year	1	2	3	4	5
Discount factor	0.909	0.826	0.751	0.683	0.621

11. Divya Company Ltd., has a capital of ₹ 1,00,000 divided into shares of ₹ 10 each. It has major expansion programme requiring an investment of another ₹ 1,00,000. The management is considering the following alternatives for raising this amount.

i) Issue of 10,000 shares of ₹ 10 each.

ii) Issue of 5,000 preference shares of ₹ 10 each at 10% dividend and Balance amount in 10% debentures.

iii) Issue of 10% debentures of ₹ 1,00,000.

The company's present EBIT is ₹ 80,000 p.a.

You are required to calculate the effect of each of the above modes of financing on EPS presuming.

a) EBIT continues to be same after expansion.

b) EBIT increases by ₹ 20,000.

c) Assume tax liability is 50%.

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