CLASS: B.B.A. **15A/54**

St. JOSEPH'S COLLEGE (AUTONOMOUS) TIRUCHIRAPPALLI – 620 002

SEMESTER EXAMINATIONS – APRIL 2015

TIME: 3 Hrs. MAXIMUM MARKS: 100

SEM	SET	PAPER CODE	TITLE OF THE PAPER
VI	2012	11UBU630214	FINANCIAL MANAGEMENT

SECTION – A

Answer all the questions: 20 x 1 = 20

Choose the correct answer:

1. The liquidity and risk have
   a) Direct relationship b) Inverse relationship
   c) No relationship d) None of these

2. When the ownership capital is less than creditorship capital, the company is said to be
   a) Highly geared b) Low geared
   c) Even geared d) Odd geared

3. The change that takesplace in the taxable income as a result of change in the operating income indicates
   a) Operating Leverage b) Financial Leverage
   c) Composite Leverage d) None of these

4. Depreciation is included in costs in case of
   a) Payback Method
   b) Accounting Rate of Return Method
   c) Present Value Index method
   d) Discount Rate of Return Method

5. Interest payable on debenture is
   a) A charge against profits b) An appropriation of profits
   c) A charge against Gross profits d) None of these

Fill in the blanks:

6. ______ may be defined as provision of money at the time it is wanted.
7. MM Approach assumes that ______ market are perfect.
8. ______ is a liability on which interest has to be paid irrespective of the company's profits.
9. ______ refers to long-term planning for proposed capital outlays and their financing.
10. The statement estimating amount of capital and determining its composition is termed as ______.

State True or False:

11. Wealth maximization means maximizing the economic welfare of the shareholders of the company.
12. According to Traditional approach cost of capital is affected by Debt-Equity mix.
13. MM Approach is similar to NOI Approach.
14. Capital Investment decision are irreversible in character.
15. Over capitalization is different from excess capital.

Match the following:

16. ARR	-	a) $v = \frac{EBIT}{k}$
17. Operating Leverage	-	b) Permanent
18. Point of Indifference	-	c) Relative profitability
19. NOI Approach	-	d) Relative profitability
20. Fixed Capital	-	e) Breakeven level of EBIT

SECTION – B

Answer all the questions: **5 x 4 = 20**

21. a. What is Financial Management? Explain its Importance.

OR

b. Explain the finance function of an organization of an organization.

22. a. Define cost of capital. Why determination of cost of capital is important?

OR

b. A company has sales of ` 1,00,000. The variable costs are 40% of the sales while the fixed operating costs amount to ` 30,000. The amount of interest on long-term debt is ` 10,000. You are required to calculate the composite leverage.

23. a. Explain the meaning of Trading on Equity.

OR

b. X Ltd. is expecting an annual EBIT of ` 1,00,000. The company has ` 4,00,000 in 10% debentures. The cost of equity capital on capitalization rate is 12.5%. You are required to calculate the total value of the firm. Also state the overall cost of capital.

24. a. A project requires an initial investment of ` 20,000 and the annual cash inflows for 5 years are ` 6,000, ` 8,000, ` 5,000, ` 4,000 and ` 4,000 respectively. Calculate the payback period.

OR

b. ABC Ltd. is proposing to take up a project which will need an investment of ` 40,000. The net income before depreciation and tax is estimated as follows:

Year	1	2	3	4	5
Income (in `)	10,000	12,000	14,000	16,000	20,000

Depreciation is to be charged according to the straight-line method. Tax rate is 50%. Calculate the Accounting Rate of Return.

25. a. List out the principles Governing a sound financial plan.

OR

b. Explain the factors determining fixed capital.

SECTION – C

Answer any FOUR questions: 4 x 15 = 60

26. "The financial goal of a firm should be to maximize profit and not wealth". Do you agree with this statement? Comment.

27. K Ltd. has the following capital structure on 1st April 2012

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Equity shares (4,00,000)	80,00,000
10% Preference shares	20,00,000
14% Debentures	60,00,000
	1,60,00,000

The share of the company currently sells for ` 25. It is expected that the company will pay a dividend of ` 2 per share which will grow at 7% forever, Assume a 50% tax rate. You are required to compute a weighted average cost of capital on existing capital structure.

28. Explain Modigliani-Miller approach to the theory of capital structure.

29. G Ltd. wants to replace its existing plant. It has received three

mutually exclusive proposals I, II and III. The plants under the three proposals are expected to cost ` 2,50,000 each and have an estimated life of 5 years, 4 years and 3 years respectively. The company's required rate of return is 10%. The anticipated net cash inflows after taxes for the three plants are as follows:

Years	Plant I `	Plant II `	Plant III `
1	80,000	1,10,000	1,30,000
2	60,000	90,000	1,10,000
3	60,000	85,000	20,000
4	60,000	35,000	---
5	1,80,000	---	---

Which of the above proposals would you recommend to the management for acceptance. You may use net present value technique for evaluation.

Years	1	2	3	4	5
PVF (10%)	0.909	0.826	0.751	0.683	0.621

30. What is financial forecasting? Explain the technique and use of financial forecasting.

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