**BBM 405**

**CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2012**

**BUSINESS MANAGEMENT**
**FINANCIAL MANAGEMENT**

**Time: 3 Hrs** **Max. Marks: 120**

**SECTION-A** **3x20 = 60**

**Answer All the questions.**

**1.** Define Financial Management. In what ways is the wealth maximization objective superior to the profit maximization objective? Explain.

**OR**

Describe in brief the various factors which are taken into account in determining the working capital needs of a firm.

2. Explain the Net Income Approach and Net Operating **Approach** to capital structure.

**OR** Explain the various internal and external factors affecting **the** dividend policy of a firm.

3. Mekhala Ltd is planning to invest in a project that costs **RsAOO.000.** Tax rate is 55%. The company uses straight line method of depreciation. **The** proposed projects cash flow before tax is as follows:

| Year | CFBT (Rs) |
|---|---|
| 1 | 1,00,000 |
| 2 | 1,00,000 |
| 3 | 1,50.000 |
| 4 | 1,50.000 |
| 5 | , 2,50.000 |

Determine

1. Pay Back period
2. Average Rate of Return
3. NPVatl5%
4. Profitability Index at 15%

Discount factors at 15% are

| Year | i | 1 | 2 | ! | j | **4** | 5 |
|---|---|---|---|---|---|---|---|

| Discount factors ; 0. 870 0. 756- \| 0.658 f "2 .497 |
|---|

**SECTION-B** **5x10 = 50**

**Answer any 5 questions.**

4. Define the concept of time value of money and explain its significance.

5. A company has on its books the following amounts and specific costs (after tax) of each type of capital.

| Type of Capital | Book Value | **Market Value** | Specific cost (%) |
|---|---|---|---|
| Debt Preference | 4.00,000 | 3,80,000 | 5 8 |
| Equity Retained | 1,00.000 | 1,10,000 | ■wT |
| Earnings | 6,00.000 | 12,00,000 | 13 |
| | 2,00,000 | | |
| Total | 13.00.000 | 16,90,000 | |

**7. 8.**

Determine the weighted average cost of capital using
a) Book value weights
b) Market value weights

Niharika enterprises is earnings Rs.10 per share (EPS). It has an Internal Rate of Return of 18% and capitalization rate of 12%. What would be the price of the share of the company has a pay out ratio of 40% under

a) Walter's model
b) Gardon's model

Define Capital Rationing. How are projects selected under Capital Rationing?

In considering the most desirable capital structure of a company the following estimates of cost of debt and equity (after) tax) have been made at various levels of debt-equity mix:

| Debt as a % of total capital employed | Cost of debt (%) | Cost of equity (%) |
|---|---|---|
| 0 | 5.0 | 12.0 |
| 10 | 5.0 | 12.0 |
| 20 | 5.0 | 12.5 |
| 30 | 5.5 | 13.0 |
| 40 | 6.0 | 14.0 |
| 50 | 6.5 | 16.0 |
| 60 | 7.0 | 20.0 |

**9.**

You are required to determine the optimum debt-equity mix for the company by calculating composite cost of capital.

Calculate all the leverages from the following data of a company

Utilisation capacity 10,000 units
Selling price Rs.l 16 per unit Variable
cost Rs.46 per unit Fixed cost
Rs.3,00,000 Interest paid Rs.l,00,000
Preference dividend Rs.50,000 Tax
Rate 50%

SECTION - C Answer all the questions.

a) State a meaning of Bonus share'.
b) What is discounted cash flow?
c) Give the meaning of trading on equity?
d) What do you mean by Risk Return Trade off?
e) Distinguish beuveen Networking Capital and Gross Working Capital.
f) What do you mean by irrelevance of capital structure?
**g) What** do you mean by perpetuity?
h) What is stock split?
**i) Give fhe meaning** of" Internal Rate of Return.
**Wirte any two** differences between cash flow and Accounting **PrafiL**

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**CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION**
**APRIL 2013**
**BUSINESS MANAGEMENT**
**FINANCIAL MANAGEMENT**

**Time: 3 Hrs** **Max. Marks: 120**

**SECTION – A**

**Answer any Three questions.** **3 x 20 = 60**

1. What is over capitalization? Explain the causes and effects of over capitalization.

2. What is meant by dividend policy? Explain the factors affecting dividend policy.

3. Explain the Net Income approach and Net operating income approach to capital structure.

4. The Alpa Co. Ltd. is considering the purchase of a new machine. Two alternative machines (x & y) have been suggested each costing `4,00,000. Cash flow after tax are expected to be as follows.

| Year | X | Y |
|---|---|---|
| 1 | 40,000 | 1,20,000 |
| 2 | 1,20,000 | 1,60,000 |
| 3 | 1,60,000 | 2,00,000 |
| 4 | 2,40,000 | 1,20,000 |
| 5 | 1,60,000 | 80,000 |

Evaluate the project proposals according to
a) Payback Period b) Average rate of return method
c) NPV @ 10% d) Profitability Index @ 10%
Discount factors at 10% are

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| PV factors | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

**SECTION – B**

**Answer any Five questions.** **5 x 10 = 50**

5. Explain the project selection process under capital rationing.

6. The following is the capital structures of Simon's Company Ltd as on 31-12-2012

| Source | Amount(`) |
|---|---|
| Equity shares 10,000 shares (`100 each) | 10,00,000 |
| 10%, preference shares (`100 each) | 4,00,000 |
| 12%, Debentures | 6,00,000 |
| 14%, Loan | 5,00,000 |
| | 25,00,000 |

The market price of company's share is `110 and it is expected that dividend of `10 per share would be declared for the year 2012.
If the company is in the 50% tax bracket, compute weighted average cost of capital.

7. From the information given below determine price per share as per Walter's model and Gordon's model.
   a) Internal rate of return 16%
   b) Capitalisation rate 10%
   c) Earnings per share `10
   d) Dividend per share `4

8. Calculate all the leverage from the following data units sold 10,000 units
   Selling price per units `60
   Variable cost per unit `40
   EBIT `60,000
   10% loan `2,00,000

9. Determine the optimum capital structure from the following information when the total capital is `10,00,000.

| Debt Amount | After tax cost of debt | Cost of equity |
|---|---|---|
| 8,00,000 | 9% | 10% |
| 5,00,000 | 6% | 11% |
| 2,00,000 | 5% | 14% |
| 6,00,000 | 8% | 10% |
| 4,00,000 | 11% | 8% |

10. A Company issued 15% debentures of `10,00,000 (face value `100) redeemable after 5 years at a premium of 10%. Calculate cost of debt if the debentures are issued at
    a) Par b) Premium c) Discount
    Company is in the 50% tax bracket.

## SECTION – C

11. **Answer all the questions:** **10 x 1 = 10**
    a) What is stock split?
    b) State any two differences between accounting profit and cash flow.
    c) What is meant by capitalization?
    d) What is time value of money?
    e) How do you calculate cost of irredeemable debenture?
    f) What is explicit cost of capital?
    g) What is meant by working capital?
    h) Define financial leverage.
    i) What are independent projects?
    j) What is financial risk?

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BBM 405.1 Reg. No. ……

# CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION
## APRIL 2014
## BUSINESS MANAGEMENT
## FINANCIAL MANAGEMENT

**Time: 3 Hrs** **Max. Marks: 120**

## SECTION – A

**Answer any THREE questions** **3x20=60**

1. "Wealth maximization is a superior criteria compared to profit maximization". Discuss.
2. Discuss the validity of M.M's approach to dividend decision and valuation of a firm.
3. What is undercapitalization? Explain the causes for and effects of undercapitalization?
4. Delux company is considering to buy a machine. Two machine alternatives are available costing `1,00,000. The cost of capital is 10%. Each machine has a life of 5 years. The cash inflows after taxation are

| Year | Machine A | Machine B | D.P @ 10% |
|---|---|---|---|
| 1 | 30,000 | 50,000 | 0.909 |
| 2 | 40,000 | 40,000 | 0.826 |
| 3 | 50,000 | 30,000 | 0.751 |
| 4 | 30,000 | 20,000 | 0.683 |
| 5 | 20,000 | 20,000 | 0.621 |

Recommend the best machine under

a) Payback period
b) NPV
c) Profitability Index
d) ARR

## SECTION – B

**Answer any FIVE questions** **5x10=50**

5. What are the major types of financial management decision that business firms take? Explain.
6. Kannan Co. Ltd wants to set up a new factory at an investment of `25,00,000 at Kundapur. The new factory is expected to yield a EBIT of `5,00,000 for maximizing earnings per share, it is considering the following alternative proposals.

   i) 10% debt of `5,00,000

   ii) 15% debt of `7,50,000

   iii) 20% debt of `10,00,000

The remaining amount in each proposal shall be collected through equity shares of `100. The company is in 30% tax bracket. Which financial proposal do you recommend on the basis of earning per share?

7. "Debt is the cheapest source of fund" comment.
8. From the information given below determine price per share as per Walter and Gordon's model.
   * Internal rate of return 18%
   * Cost of capital 12%
   * Earning per share `10
   * Dividend per share `4
9. Why are cashflows considered to be a better measure of economic viability as compared to accounting profits?
10. A company has on its books the following amounts and specific costs (after tax) of each type of capital.

| Source | Book value | Market value | Cost of capital |
|---|---|---|---|
| Debt | 4,00,000 | 3,80,000 | 5% |
| Preference | 1,00,000 | 1,10,000 | 8% |
| Equity | 6,00,000 | 9,00,000 | 13% |
| Retained earning | 2,00,000 | 3,00,000 | 13% |

Determine the weighted average cost of capital using

a) Book value weights b) Market value weights

## SECTION – C

11. **Answer the following** **10x1=10**
   a) What is capital rationing?
   b) Define time value of money.
   c) Mention any two factors influencing capital structure.
   d) What is risk return trade off?
   e) State the accept/reject rule under ARR method.
   f) What is overcapitalization?
   g) What is composite cost?
   h) What is reverse split?
   i) Define financial leverage.
   j) What are zero coupon bonds?

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CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION
APRIL 2015
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT

Time: 3 Hrs Max. Marks: 120

SECTION – A

**Answer any THREE questions:** **3x20=60**

1. Explain the major types of financial management decision that business firms take?
2. Critically evaluate Walter's model of dividend policy with examples.
3. Explain the factors that determine the capital structures of a firm.
4. Sunrise Ltd is considering investing in a project that costs `,6,00,000. Tax rate of a company is 30%. The proposed cash flow before tax and depreciation is as follows.

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| CFBT ` | 1,50,000 | 1,25,000 | 1,50,000 | 2,00,000 | 2,75,000 |

Determine:

a) NPV at 10%
b) Profitability index at 10%
c) ARR
d) Payback period

Discount factors at 10% are

| Year | PV factors |
|---|---|
| 1 | 0.909 |
| 2 | 0.826 |
| 3 | 0.751 |
| 4 | 0.683 |
| 5 | 0.621 |

SECTION – B

**Answer any FIVE questions** **5x10=50**

5. Explain the significance of time value of money?

6. Calculate WACC from the following

| Source | Amount | Before tax cost |
|---|---|---|
| Equity shares | 6,00,000 | 20% |
| Retained earnings | 2,00,000 | 16% |
| Preference shares | 1,00,000 | 14% |
| Debentures | 3,50,000 | 12% |
| Tax rate is 30% | | |

7. Define capital rationing. How are projects selected under capital rationing?
8. A company has the following capital structure 10,000 equity shares of ` 10 each `1,00,000

   `2,000, 10% . Preference shares of ` 100 each `2,00,000.

   `2,000, 10% debentures of ` 100 each `2,00,000

   Calculate the EPS for each of the following levels of EBIT i) 1,00,000

   ii) 60,000 iii) 1,40,000.

   The company is in 50% tax bracket.
9. Explain the causes for overcapitalization?
10. 'X' company Ltd. has earring per shares 8. It has an internal rate of return of 18% and capitalization rate of 12%. What would be the price of the share if the company has a payout ratio of 45% under.

    a) Walter's model b) Gordon's Model

## SECTION – C

11. **Answer the following** **10x1=10**
    a) What is market risk?
    b) What is share split?
    c) Mention the accept / reject rule under payback method.
    d) What is floatation cost?
    e) How do you calculate cost of irredeemable preference shares?
    f) What is trading on equity?
    g) Distinguish between risk and uncertainty.
    h) State any two drawbacks of the profit maximization objective of financial management.
    i) What is undercapitalisation?
    j) What are bonus shares?

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BBM 405.1 Reg. No. .....

# CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2016
## BUSINESS MANAGEMENT
## FINANCIAL MANAGEMENT

**Time: 3 Hrs.** **Max. Marks: 120**

## SECTION – A

**Answer any THREE questions:** **3×20=60**

1. What is over capitalization? Explain the causes and effects of over capitalization.
2. Define Financial Management. Explain the scope of Financial Management.
3. What is meant by Dividend policy? Explain the factors affecting dividend policy.
4. Manvith Ltd., is considering the purchase of a machine which costs ₹50,000. The machine has a life of 5 years and no salvage value. The tax rate is 35%. The company follows straight line method of depreciation. The estimated cash flows before tax (CFBT) from the investment are as follows:-

| Year | CFBT (₹) |
|---|---|
| 1 | 10,000 |
| 2 | 10,692 |
| 3 | 12,769 |
| 4 | 13,462 |
| 5 | 20,385 |

Compute
a) Pay Back period
b) Average Rate of Return
c) NPV at 10% discount rate
d) Profitability index at 10% discount rate

The PV of Re1 at 10% discount rate from year 1 to 5 are:- 0.909, 0.826, 0.751, 0.683 and 0.621.

## SECTION – B

**Answer any FIVE questions:** **5×10=50**

5. "A Wealth maximization is a superior criteria compared to profit maximization". Explain briefly.
6. Easy Form Products Ltd., had the following capital structure.
   i) Equity shares of ₹10 each amounting to ₹3,00,000. The market price of the share was ₹75 and the dividend was at 40%.
   ii) 15% preference shares of ₹100 each redeemable after 10 years at 10% premium. Total preference capital was ₹2,00,000.
   iii) ₹4,00,000 worth of 14% debentures of ₹100 each redeemable at 5% premium after 5 years. The applicable tax rate was 30%. Calculate the cost of capital of the company (weighted average cost of capital)
7. Explain the risk return trade off of current assets financing.

8. From the information given below determine price per share as per Walter's model and Gordon's model:-

   a) Internal Rate of Return – 16%
   b) Capitalisation Rate – 10%
   c) Earnings per share – ₹10
   d) Dividend per share – ₹4

9. A small scale industrial unit was selling its output at ₹10 per unit with a variable cost of ₹4 per unit and a fixed cost of ₹10,000. It paid ₹4,000 on a bank loan as interest and paid taxes at 40%.
   Calculate the operating, financial and combined leverages assuming an output of 5000 units.

10. Determine the optimum capital structure from the following information when the total capital is ₹10,00,000.

| Debt Amount | After tax cost of debt | Cost of equity |
|---|---|---|
| 8,00,000 | 9% | 10% |
| 5,00,000 | 6% | 11% |
| 2,00,000 | 5% | 14% |
| 6,00,000 | 8% | 10% |
| 4,00,000 | 11% | 8% |

## SECTION – C

11. **Answer all the questions:** **10×1=10**

   a) What is meant by working capital?
   b) What is an annuity?
   c) What is financial risk?
   d) What is explicit cost of capital?
   e) What is meant by 'capital rationing'?
   f) Give the meaning of discounted cash flow.
   g) Define "capital structure".
   h) Distinguish between permanent working capital and temporary working capital.
   i) What is Leverage?
   j) What is stock split?

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BBM 405.2 Reg. No. .....

# CREDIT BASED FOURTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2016
## BUSINESS MANAGEMENT
## FINANCIAL MANAGEMENT

**Time: 3 Hrs.** **Max. Marks: 120**

## SECTION – A

**Answer any THREE questions:** **3×15=45**

1. Define Financial Management. Explain the scope of Financial Management.
2. Explain the Net Income Approach and Net operating Approach to capital structure.
3. What is meant by dividend policy? Explain the factors affecting dividend policy.
4. Madhukar Ltd., is considering the purchase of a machine which cost ₹50,000. The machine has a life of 5 years and no salvage value. The tax rate is 35%. The company follows straight line method of depreciation. The estimated Cash Flows Before Tax (CFBT) from the investment are as follows:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| CFBT (₹) | 10,000 | 10,692 | 12,769 | 13,462 | 20,385 |

Compute: - a) pay back period b) ARR c) NPV at10% discount rate
b) profitability index at 10% discount rate
The PV of Re.1 at 10% discount from year 1 to 5 are:-
0.909, 0.826, 0.751, 0.683 and 0.621

## SECTION – B

**Answer any FIVE questions:** **5×10=50**

5. Explain the capital budgeting process.
6. For the year 2005-06, ABC Ltd achieved an EPS at ₹8. Its cost of capital is 15% and rate of return is 20%. Determine its market price when the dividend payout ratio is

   a) 0% b) 25%
7. Explain the classification of cost of capital.
8. Calculate all the leverages from the following data.
   Units sold – 10,000 units
   Selling price per unit – ₹60
   Variable cost per unit ₹40
   EBIT – ₹60,000
   10% loan – ₹2,00,000
9. The details of a company capital structure are as follows:

| Types of capital | Book value | Market value | Specific cost |
|---|---|---|---|
| Equity share capital | 1,00,000 | 1,80,000 | 15% |
| Preference share capital | 50,000 | 1,20,000 | 12% |
| Debentures | 60,000 | 1,00,000 | 6% |
| Retained earnings | 40,000 | --- | 15% |

Calculate the WACC using:
a) Book value as weights b) Market value a weights

10. Akash Plantation Ltd., issued 10,000 debentures of ₹50 each, carrying interest at 10%. These were redeemable after 5 years at a 10% premium. The issue expenses amounted to 5% of net proceeds of sale. Applicable tax rate is 30%.
Calculate cost of debt if the issue is made:-
a) at par
b) at a premium of 5%
c) at a discount of 10%

## SECTION – C

11. **Answer the following questions:** **10×1=10**

a) What is a 'Bonus Share'?
b) Give the meaning of trading on equity.
c) What is financial risk?
d) What is meant by capitalization?
e) What is explicit cost of capital?
f) What is an annuity?
g) Define 'Capital structure'.
h) Give the meaning of 'Internal Rate of Return'.
i) What is discounted cash flow?
j) What is meant by time value of money?

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