



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.
(3x14=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%.