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Reg. No. : ....

Name : ....

Fourth Semester B.B.A. LL.B. (Five Year Integrated) Degree Examination, November 2019

Paper II : FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 80

PART – A

I. Explain any **five** of the following questions. Each answer should not exceed **50** words. Each question carries **2** marks :

1. Identify the components of Owner's fund.

2. List any two advantages of issuing debentures from the point of view of a company.

3. What is a preference share? Give any two features.

4. Explain the term capital budgeting.

5. Give an account of any two traditional techniques of capital budgeting.

6. Define working capital.

7. What is EOQ? Give the formulae.

(5 × 2 = 10 Marks)

PART – B

II. Answer any **four** of the following questions. Each answer should not exceed **120** words. Each question carries **4** marks :

8. Explain the importance of capital budgeting.

P.T.O.

9. What is Accounting rate of return? List any three advantages.

10. Define cost of capital. Give its importance.

11. What is working capital? Explain any four dangers of insufficient working capital.

12. What do you mean by inventory management? Explain the objectives of inventory management.

(4 × 4 = 16 Marks)

PART – C

III. Answer any **four** of the following questions. Each question carries **6** marks :

13. From the details of Navaratna Ltd. for the previous year, calculate the stock levels (a) maximum level (b) minimum level (c) reordering level. Reorder quantity 1500 units. Reorder period 4 to 6 weeks.

    Maximum consumption 400 units per week

    Normal consumption 300 units per week

    Minimum consumption 250 units per week.

14. XYZ Ltd. issues 10 year 10% debentures of the face value of Rs. 100 at Rs. 90. The marginal rate of tax applicable to the company is 50%. Calculate the cost of capital of redeemable debentures.

15. Explain ABC analysis in inventory management.

16. Give the merits and demerits of 'loan from financial institution' as a source of fund.

17. Explain the advantages and disadvantages of NPV method.

18. Jyothi Ltd. offers for public subscription equity shares of Rs. 10 each at a premium of 10%. The company pays 5% of the issue price as underwriting commission. The rate of dividend expected by the equity shareholders is 20%. Calculate the cost of equity capital. Will your cost of capital be different, if it is to be calculated on the current market value of equity shares which is Rs. 15.

(4 × 6 = 24 Marks)

PART – D

IV. Answer any **three** of the following questions. Each question carries **10** marks :

19. List the different methods of capital budgeting techniques stating the advantages and disadvantages.

20. Explain the different inventory management techniques usually adopted in manufacturing companies.

21. ABC Ltd. gives the following information :

Expected level of production	1,20,000 units
Raw materials to remain in stock on an average	2 months
Processing period for each unit of product	1 month
Finished goods remain in stock on an average	3 months
Credit allowed to the customers from the date of despatch	3 months

Estimated ratios of cost of selling price

Raw material 60%   Direct wages 10%

Overheads 20%

Overheads 20%   Expected margin on sale 10%

Selling price per unit Rs.10

You are required to estimate the working capital requirements.

22. The following details relate to the two machines X and Y:

Details	Machine X Rs.	Machine Y Rs.
Cost	56,125	56,125
Estimated life	5 years	5 years
Estimated salvage value	3,000	3,000
Annual income after tax and depreciation		
1 Yr	3,375	11,375
2 Yr	5,375	9,375
3 Yr	7,375	7,375
4 Yr	9,375	5,375
5 Yr	11,375	3,375

Overhauling charges at the end of 3rd yr Rs. 25,000 for machine X. Depreciation has been charged at straight line method. Cut off rate is 10%. PV factor for five years .909, .826, .751, .683, .621. Advise using NPV method.

23. What is dividend? Mention the different forms of dividend.

24. From the following capital structure of a company, calculate the overall cost of capital using (a) book value weights and (b) market value weights :

Sources	Book value Rs.	Market value Rs.
Equity share capital (Rs. 10 shares)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows :

Equity share capital 14%, Retained earnings 13%, Preference share capital 10%, debentures 5%.

(3 × 10 = 30 Marks)