



Reg. No. :

Name :

**Fourth Semester B.B.A. LL.B. (Five Year – Integrated) Degree
Examination, October 2015
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. **(5×2=10 Marks)**
- 1) What do you mean by Financial Management ?
 - 2) Define Capital Budgeting.
 - 3) Define IRR.
 - 4) What is trading on equity ?
 - 5) What is Dividend Payout Ratio ?
 - 6) Write a note on arbitrage process.
 - 7) What is Optimal Capital Structure ?

PART – B

- II. Answer **any four** of the following questions. **Each** answer should **not** exceed **120** words. **Each** question carries **4** marks. **(4×4=16 Marks)**
- 8) What are the objectives of financial management ?
 - 9) What are the principles of working capital management ?
 - 10) What is Lock Box System ? How does it help to reduce the cash balance ?
 - 11) What are the factors affecting capital structure ?
 - 12) Distinguish between financial leverage and operating leverage.



PART – C

III. Answer **any four** of the following questions. **Each** question carries **6** marks.
(4×6=24 Marks)

- 13) Explain Inventory Management technique.
- 14) Explain the merits and demerits of ARR method.
- 15) What are the factors influencing working capital ?
- 16) Explain over capitalization and under capitalization.
- 17) Explain determinants of dividend policy.
- 18) A company issues 10,000 10% Preference Shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued (a) at par (b) at a premium of 10%, and (c) at a discount of 5%.

PART – D

IV. Answer **any three** of the following questions. **Each** question carries **10** marks.
(3×10=30 Marks)

- 19) "The value of the firm depends on the firms earnings". Comment on the statement.
- 20) A Limited Company is considering the purchase of a new machine which will carry out some operations performed by labour. X and Y are alternative models. From the following information, you are required to prepare profitability statement showing rate of return on investment and work out the pay-back period for each method.

	Model X	Model Y
Estimated Life	5 years	6 years
Cost of machine	Rs. 1, 50,000	Rs.2,50,000
Cost of Indirect materials	Rs. 6,000	Rs. 8,000
Estimated savings in Scrap	Rs. 10,000	Rs. 15,000
Additional cost of maintenance	Rs. 19,000	Rs. 27,000
Estimated savings in direct wages :		
Employees not required	150	200
Wages per employee	Rs. 600	Rs. 600

Taxation to be regarded 50% of profit before charging depreciation. Which model would you recommend ?



- 21) What do you understand by Working Capital ? Discuss the various sources of working capital funds.
- 22) Compute cost of capital from the following information :
- a) X Ltd. issues Rs. 50,000 8% debentures at par. The tax rate applicable is 50%.
 - b) Y Ltd. issues Rs. 50,000 8% debentures at a premium of 10%. Tax rate is 50%.
 - c) A Ltd. issues Rs. 50,000 8% debentures at a discount of 5%. Tax rate is 50%.
 - d) B Ltd. issues Rs. 1,00,000 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 60%.
- 23) Explain Capital structure and mention the factors affecting capital structure.
-