FINANCIAL MANAGEMENT - I (SEMESTER - 4)

CS/BBA (H), BIRM, BSCM/SEM-4/BBA-403/09 1. Signature of Invigilator 2. Reg. No. Signature of the Officer-in-Charge Roll No. of the Candidate

CS/BBA (H), BIRM, BSCM/SEM-4/BBA-403/09 ENGINEERING & MANAGEMENT EXAMINATIONS, JUNE – 2009 FINANCIAL MANAGEMENT – I (SEMESTER - 4)

Time: 3 Hours [Full Marks: 70

INSTRUCTIONS TO THE CANDIDATES:

- 1. This Booklet is a Question-cum-Answer Booklet. The Booklet consists of **36 pages**. The questions of this concerned subject commence from Page No. 3.
- 2. a) In **Group A**, Questions are of Multiple Choice type. You have to write the correct choice in the box provided **against each question.**
 - b) For **Groups B** & **C** you have to answer the questions in the space provided marked 'Answer Sheet'. Questions of **Group B** are Short answer type. Questions of **Group C** are Long answer type. Write on both sides of the paper.
- 3. **Fill in your Roll No. in the box** provided as in your Admit Card before answering the questions.
- 4. Read the instructions given inside carefully before answering.
- 5. You should not forget to write the corresponding question numbers while answering.
- 6. Do not write your name or put any special mark in the booklet that may disclose your identity, which will render you liable to disqualification. Any candidate found copying will be subject to Disciplinary Action under the relevant rules.
- 7. Use of Mobile Phone and Programmable Calculator is totally prohibited in the examination hall.
- 8. You should return the booklet to the invigilator at the end of the examination and should not take any page of this booklet with you outside the examination hall, **which will lead to disqualification**.
- 9. Rough work, if necessary is to be done in this booklet only and cross it through.

No additional sheets are to be used and no loose paper will be provided

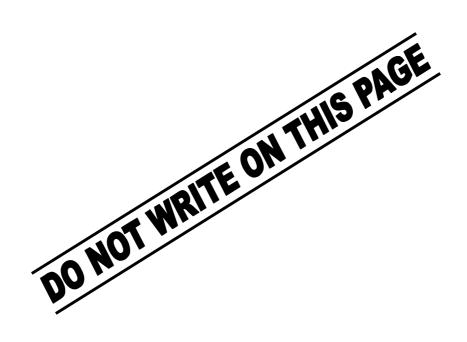
FOR OFFICE USE / EVALUATION ONLY Marks Obtained Group - A Group - B Group - C Question Number Marks Obtained Marks Obtained

Head-Examiner/Co-Ordinator/Scrutineer

4548 (10/06)









ENGINEERING & MANAGEMENT EXAMINATIONS, JUNE - 2009 FINANCIAL MANAGEMENT - I SEMESTER - 4

Time: 3 Hours]

Full Marks : 70

GROUP - A

(Multiple Choice Type Questions)

1.	Cho	ose th	e correct alternatives for any ten	of the	e following :	10 × 1 = 10
	i)	Expl	licit cost means		-	
		a)	opportunity cost	b)	specific cost	
		c)	implicit cost	d)	WACC.	
	ii)	Poor	liquidity & higher risk represer	ıt		
		a)	conservative current asset pol	icy		
		b)	aggressive current asset policy	7		
		c)	moderate current asset policy			
		d)	none of these.			
	iii)	In ca	ase of growth firm, the ideal divi	dend p	pay-out ratio should be	
		a)	100%	b)	0%	
		c)	50%	d)	75%.	
	iv)	The	operating leverage indicates			
		a)	EPS to change in EBIT			
		b)	production to changes in sales	5		
		c)	EBIT to changes in sales			
		d)	impact of changes in sales on	EBIT.		

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v)	v) Which of the following is not a determinant of the working capital requ					
	a firi	m ?		© Utech		
	a)	Dividend policy	b)	Availability of raw materials		
	c)	Credit policy	d)	Cost of capital.		
vi)	The	dividend irrelevance model was	propou	inded by		
	a)	Walter	b)	Gordon		
	c)	Graham & Dodd	d)	Modigliani and Miller.		
vii)	Fina	ncial fixed cost means				
	a)	interest on borrowed capital	b)	dividend on equity shares		
	c)	transfer to reserve	d)	income tax.		
viii)	Whi	ch of the following is regarde	d as	a tax saving instrument of f	inancial	
	man	agement?				
	a)	Depreciation	b)	Income tax		
	c)	Dividend	d)	Interest.		
ix)	The	minimum amount of working	capital	which is required by an orga	nization	
	thro	ughout the year is known as				
	a)	temporary working capital	b)	permanent working capital		
	c)	net working capital	d)	gross working capital.		
x)	The	ROI method of capital Budgeting	g decis	ion is made on the basis of		
	a)	$ROI < K_0$	b)	$ROI > K_0$		
	c)	$ROI = K_0$	d)	ROI = 0.		

4



xi)	Inve	stment decisions depending up	pon m	any conditions and involving various			
	alternatives forming many cause-effect relationships can be best handled by						
	a)	NPV method	b)	Cost comparison method			
	c)	Decision tree technique	d)	Payback period method.			
xii)	The	The cost of procuring additional capital is known as					
	a)	Marginal cost of capital	b)	Variable cost of capital			
	c)	Overall cost of capital	d)	Average cost of capital.			

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GROUP - B

(Short Answer Type Questions)

Answer any *three* of the following questions.

 $3 \times 5 = 15$

- 2. What is capital rationing?
- 3. "The value of an equity share is a function of cash inflows expected by investors and the risk associated with the cash inflows." Justify the statement in the light of the CAPM model.
- 4. Differentiate between financial and operational leverage. What do you mean by degree of combined leverage?
- 5. Differentiate between 'profit maximization' and 'wealth maximization'.
- 6. A Limited issues 13% debentures of face value of Rs. 100 each and realises Rs. 95 per debenture. The debenture is redeemable after 10 years at a premium of 10%. Calculate cost of debenture considering 40% tax-rate.



GROUP - C

(Long Answer Type Questions)

Answer any three of the following questions

 $3 \times 15 = 45$

- 7. a) State the importance of computing cost of capital.
 - b) Calculate weighted average cost of capital from the following information pertaining to AB Ltd. :

i)	Capital structure		Rs.
	Equity share capital (Rs. 10 each fully paid	d)	1,00,000
	Reserves (General)		50,000
	Long-term debt		1,00,000
		Total	2,50,000

- ii) Market price per share is Rs. 60 and earnings per share is Rs. 6. Expected growth rate in earnings is 5% p.a.
- iii) Cost of debt (before tax): 12% p.a.
- iv) Applicable corporate tax: 40%

7 + 8

- 8. a) State the factors which determine working capital requirements of a manufacturing firm.
 - b) P & G Ltd. furnishes below its cost and other data:

Unit selling Price Rs. 100

Unit Cost	Rs.
Raw Material	30
Direct Labour	20
Ovehead	?
Profit (25% on selling price)	?

1 month

2 months



Additional information is as follows:

Average raw materials in stock

Average raw materials in process

Credit allowed by suppliers $1\frac{1}{2}$ months

Credit allowed to debtors 3 months

Finished goods are in stock on an average 1 month

Time lag in payment of wages $\frac{1}{2}$ month

Time lag in payment of overhead 1 month

Cash balance is assumed to be Rs. 1,00,000 and 70% of sales are credit sales.

Assuming that production is carried on evenly throughout the year, you are required to determine the working capital requirement of the P & G Ltd. to achieve an output level of 1,20,000 units p.a. 5+10

9. From the following particulars prepare a monthly cash budget for the quarter ended 31st March, 2009:

Months	Sales	Purchases	Wages	Expenses
November	50,000	10,000	20,000	4,000
December	60,000	20,000	20,000	4,000
January	40,000	30,000	22,000	5,000
February	50,000	20,000	22,000	5,000
March	60,000	10,000	24,000	5,000



Other information:

- i) 10% of sales & purchases are on cash, balance on credit
- ii) Credit to debtors: 1 month, on an average 50% of the debtors will make payment on due time while the rest will make payment 1 month thereafter.
- iii) Credit from creditors: 2 months, 10% cash discount will be received if payment is made 1 month & it is estimated that 50% of purchases advantage of cash discount will be taken.
- iv) Wages: to be paid twice in a month on the 1st & 16th respectively.
- v) Expenses generally paid within the month.
- vi) Plant costing Rs. 10,000 will be installed in February of payment on 25% of the cost in an addition to installation cost of Rs. 500, balance to be paid in equal monthly installments from the following month.
- vii) Opening cash balance Rs. 20,000. Excess cash over Rs. 20,000 to be invested in securities which is traded off in the market in multiple of 100. On the other hand deficit cash to be met up by selling securities.
- 10. a) Discuss profitability index method of capital budgeting.
 - b) Determine the IRR from the following set of data :

Cost of project Rs. 45,000

Annual cash inflows after tax:

 1st Year
 Rs. 5,000

 2nd Year
 Rs. 10,000

 3rd Year
 Rs. 15,000

 4th Year
 Rs. 20,000

5th Year Rs. 25,000

Estimated life of the project 5 years.



11. What do you mean by the capital structure of a firm? Waht are the problem faced by a highly geared firm during recession? State the importance of Capital Adequacy Ratio.

3 + 7 + 5

12. Write short notes on any *three* of the following :

 3×5

- a) Capital budgeting decision
- b) Work in progress
- c) Contribution
- d) Present value
- e) Public lending rate
- f) Purchasing price parity.

END