Dr. Babasaheb Ambedkar Open University
Term End Examination December – 2019

Course	:	**BBA**	**Date**	:	**27-Dec-2019**
Subject Code	:	**BBA-OLD-304/BBAIB-304**	**Time**	:	**11:00am to 02:00pm**
Subject Name	:	**Financial Management**	**Duration**	:	**03 Hours**
			Max. Marks	:	**70**

Section A

Answer the following (Attempt any three) **(30)**

1. What is financial management? How does a modern financial management differ from? Traditional financial management?
2. Define cost of capital . Explain its significance in financial decision making.
3. What do you understand by capital budgeting ? Explain the importance of capital budgeting from the point of view of industrial concern.
4. Following financial data are avaiable about A.B.C. Ltd.
   Expected net operating income Rs. 6,00,000
   Debt Rs. 16,00,000 @ 12%
   Equity Capitalisation Rate 15%
   Equity Share Capital Rs. 24,00,000
   What will be the effect of the following actions on the valuation and Ko ?
   (a) If the Company raises further debt of Rs. 8,00,000 at 12% and the net operating income is expected to increase by Rs. 1,20,000 and
   (b) With increase in leverage, the equity capitalisation rate increase to 18%.
5. XYZ Ltd. issues Rs. 5,00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amount to Rs. 15,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%.

Section B

Answer the following (Attempt any four) **(20)**

1. Explain the role and status of financial manager in the organisation structure of an enterprise.
2. Explain the concept and features of an optimal capital structure.
3. Explain computation of accounting rate of return.
4. What is the objectives of "Management of Receivables"?
5. A firm has Rs. 8 lakhs of debt at 8 per cent, an expected annual net operating earnings (EBIT) of Rs. 18 lakhs and an equity capitalisation rate of 10 per cent. There are no corporate income taxes. Calculate total value of firm.
6. A project costs Rs. 10,000 and is expected to generate cashinflows of Rs. 1,750 annually for 10 years. Its salvage value is nil. Calculate its IRR.

Section C

Part – A (Multiple Choice Questions) **(10)**

1 The only feasible purpose of financial management is

A Wealth Maximization B Sales Maximization
C Profit Maximization D Asset Maximization

2 Financial management process deals with

A Investment B Financing decision
C Both of the above D None of the above

3 Agency cost consists of

A Binding
B Monitoring
C Opportunity and structure cost
D All of the above

4 Finance Function comprises

A Safe custody of funds only
B Expenditure of funds only
C Procurement of finance only
D Procurement & effective use of funds

5 The objective of wealth maximization takes into account

A Amount of returns expected
B Timing of anticipated returns
C Risk associated with uncertainty of returns
D All of the above

6 Financial management mainly focuses on

A Efficient management of every business
B Brand dimension
C Arrangement of funds
D All elements of acquiring and using means of financial resources for financial activities

7 Time value of money indicates that

A A unit of money obtained today is worth more than a unit of money obtained in future
B A unit of money obtained today is worth less than a unit of money obtained in future
C There is no difference in the value of money obtained today and tomorrow
D None of the above

8 Time value of money supports the comparison of cash flows recorded at different time period by

A Discounting all cash flows to a common point of time
B Compounding all cash flows to a common point of time
C Using either a or b
D None of the above

9 If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:

A 10% per annum
B 10.10% per annum
C 10.25%per annum
D 10.38% per annum

10 Relationship between annual nominal rate of interest and annual effective rate of interest, if frequency of compounding is greater than one:

A Effective rate > Nominal rate
B Effective rate < Nominal rate
C Effective rate = Nominal rate
D None of the above

Part – B (Do as Directed) (10)

1 Pay Back Period
2 Safety Stock
3 Future Contract
4 IRR
5 Derivatives
6 Capital rationing
7 Average cost of capital
8 Quick liability
9 Inventory Management
10 Cost of reserve