

**Dr. Babasaheb Ambedkar Open University**  
**Term End Examination March – 2021**

Course	: BBA	Date	: 07-March-2021
Subject Code	: BBAN-402	Time	: 01:00pm to 03:00pm
Subject Name	: Financial Management	Duration	: 02 Hours
		Max. Marks	: 50

---

**Section A**

**Answer the following (Attempt any two)**

**(20)**

1. Define financial management. Explain various function of financial management in detail.
2. Write a detailed note on debenture capital
3. Define working capital. Explain various types of working capital in detail
4. A choice is to be made between two competing proposals which require an equal investment of Rs.50, 000 and are expected to generate net cash flows as under: You are request to suggest which project will select on the basis of NPV and PI  
Cost of capital of the company is 10%

Year	Net Cash Inflow (Rs.)	
	Project X	Project Y
1	25,000	10000
2	15,000	12000
3	10000	18000
4	Nil	25000
5	12,000	8000
6	6,000	4000

Year	1	2	3	4	5	6
PV Factors at 10%	0.909	0.826	0.751	0.683	0.621	0.564

**Section B**

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

**(15)**

1. Discuss various techniques of financial management in brief
2. Reliance Ltd. issues 2000 new equity shares of Rs 100 each at par. The floatation costs are expected to be 5% of the share price. The company pays a dividend of Rs.10 per share initially and the growth in dividends is expected to be 5%. Compute the cost of new issue of equity share
3. Explain traditional approach of optimal capital structure
4. A firm has sales of Rs. 20, 00,000; variable cost of Rs. 14,00,000 and fixed costs of Rs. 4,00,000, and debt of Rs. 10,00,000 at 10% rate of interest. What are the operating, financial and combined leverages?
5. Briefly discuss three components of cash flow

**Section C**

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

**(10)**

1. \_\_\_\_\_ must decide when, where, from whom and how to acquire funds to meet the firm's investment needs  
A Financial manager  
B HR manager  
C Production manager  
D Marketing manager
2. \_\_\_\_\_ combine the attributes of equity shares and debentures  
A Equity share  
B Preference share  
C Debenture  
D Bonus share

- 3 The \_\_\_\_ can be used as a tool to evaluate the financial performance of top management  
 A Capital structure B Working capital  
 C Cost of capital D Dividend
- 4 A company uses fixed fund sources such as debentures, term loans etc. along with equity capital. This is known as \_\_\_\_  
 A Operating leverage B Combined leverage  
 C Total leverage D Financial leverage
- 5 \_\_\_\_ is the difference between current assets and current liabilities  
 A Net working capital B Gross working capital  
 C Marketing working capital D Variable working capital
- 6 NPV stand for \_\_\_\_  
 A Net profit value B Net present value  
 C Net Present Volume D Net Profit volume
- 7 The payments delayed by the customers will lead to \_\_\_\_\_receivables  
 A Equal B Decrease  
 C Increase D None of these
- 8 Which of the following are reasons for holding cash?  
 A Transaction motive B Precautionary motive  
 C Speculative motive D All of these
- 9 \_\_\_\_ includes spending money on the basic necessities like food, shelter, and clothing  
 A Consumption B Saving  
 C Investment D Deposit
- 10 Which of the following are the types of derivatives?  
 A Future contract B Forward contract  
 C Option D All of these

**Part – B (Do as Directed)**

**(05)**

**State whether the following statement are True or False**

- 1 The firm should select only those capital investment proposals whose net present value is positive
- 2 Non convertible debenture are pure debentures without a feature of conversion
- 3 The funds required for the project is raised from the preference capital which are of permanent nature
- 4 The Net Income Approach (NI) assumes that the cost of debt and that of equity are independent to capital structure
- 5 The operating cycle refers to the average time elapses between the acquisition of raw materials and the final cash realization

\*\*\*\*\*