

ADIKAVI NANNAYA UNIVERSITY RAJAHMUNDRY

BACHELOR OF BUSINESS MANAGEMENT - II YEAR

FINANCIAL MANAGEMENT MODEL QUESTION PAPER

3Hours

Total Marks : 80 M

SECTION - A

I) Answer ALL the following questions: (4 X 15 = 60M)

1. a) Define Financial Management. Explain the objectives and scope of financial management.

(OR)

b) A firm has the following capital structure and after-tax costs for the different sources of funds used:

Sources of Funds	Amount	Proportion	After-tax cost
	Rs.	%	%
Debt	4,50,000	30	7
Preference Capital	3,75,000	25	10
Equity Capital	6,75,000	45	15
Total	15,00,000	100	

You are required to compute the weighted average cost of capital using book-value weights. The firm wishes to raise further Rs.6,00,000 for the expansion of the project as below:

Debt	Rs. 3,00,000
Preference Capital	Rs. 1,50,000
Equity Capital	Rs. 1,50,000

Assuming that specific costs do not change, compute the Weighted Marginal Cost of Capital.

2. a) Explain the techniques used in Capital Budgeting?

(OR)

b) A company has an investment opportunity costing Rs. 40,000 with the following expected cash flow after taxes and before depreciation.

YEAR	NET CASH FLOWS (Rs.)
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital, determine the following:

- Pay back period
- Net Present Value at 10% discount factor
- Profitability index at 10% discount factor
- Internal rate of return with the help of 10% and 15% discount factor.

Note:

Year	Present Value of Re.1 at 10% discount factor	Present Value of Re.1 at 15% discount factor
1	0.909	0.870
2	0.826	0.756
3	0.751	0.658
4	0.683	0.572
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284
10	0.386	0.247

3. a) What are the factors affecting Cost of Capital?

(OR)

b) A proforma cost sheet of a company provides the following particulars:

Elements of cost	Amount per unit(Rs.)
Raw material	80
Direct labour	30
Overheads	60
Total Cost	170
Profit	30
Selling Price	200

The following further particulars are available:

- 1) Raw materials are in stock on an average for one month. Materials are in process on an average for half a month. Finished goods are in the stock on an average for one month.
- 2) Credit allowed by suppliers is one month. Credit allowed to customers is two months. Lag in payment of wages is 1½ weeks. Lag in payment of overhead expenses is one month.
- 3) One-fourth of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 25,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

4. a) Explain the theories of Capital Structure.

(OR)

b) A company belongs to a risk-class for which the appropriate capitalization rate is 10%. It currently has outstanding 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 5 per share at the end of the current financial year. The company expects to have a net income of Rs. 2.5 lakhs and has a proposal for making new investments of Rs. 5 lakhs.

Show that under the M-M assumptions, the payment of dividend does not affect the value of the firm.

SECTION -B

II) Answer any FOUR out of the following:

(4 X 5 = 20M)

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| 5. Difference between shares and debentures | 6. Types of Preference shares |
| 7. WACC | 8. Leverage and its types |
| 9. Relationship between Finance and Marketing | |
| 10. VED Analysis in Inventory Management | |
| 11. Walter's Dividend Policy | 12. Commercial Papers |