

**BACHELOR OF BUSINESS
ADMINISTRATION II YEAR
EXAMINATION, 2010**

Paper — BBAD-402

FINANCIAL MANAGEMENT

Time : 2½ Hours

Maximum Marks : 70

*(Write your Roll No. at the top immediately
on receipt of this question paper.)*

*This paper has three Sections. Follow the
instructions given in each Section.*

SECTION - I (1 × 10 = 10)

Answer ALL questions; each carrying 1 mark.

Choose the correct option from the alternatives given
in each question.

1. The decision which relates to the selection of assets
in which funds will be put in by a firm is termed as
..... Decision.
 - a) Investment
 - b) Financing
 - c) Liquidity
 - d) Dividend

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2. Maximizing the market value of the shares helps in achievingGoal
- a) Profit Maximisation
 - b) Wealth Maximisation
 - c) Share Maximisation
 - d) Dividend Maximisation
3. The automatic sources of short term funds arising in the normal course of a business are Financing.
- a) Long term
 - b) Short term
 - c) Spontaneous
 - d) Micro
4. The firm having debt in its capital structure is called firm
- a) Unlevered
 - b) Levered
 - c) Hedge
 - d) Debt

5. The rate of return a firm requires from investment to increase the value of firm in the market is known as
- a) Cost of Capital
 - b) Cost of Equity
 - c) Opportunity Cost
 - d) Cost of Debt
6. The excess of current assets over current liabilities is calledcapital
- a) Working
 - b) Net working
 - c) Fixed
 - d) Gross working
7. Cost involved in maintaining inventory is known ascost
- a) Ordering
 - b) Carrying
 - c) Fixed
 - d) Sunk

8. In ABC analysis 'A' items needcontrol
- a) No b) Least
c) Moderate d) Tightest
9. The motive behind holding cash for investing in profit making opportunities as they arise is calledmotive
- a) Transaction b) Precautionary
c) Speculative d) Compensation
10. is a process in which bills receivables are sold for cash before maturity.
- a) Factoring b) Lagging
c) Netting d) Betting.

SECTION - II (6 × 5 = 30)

Answer any SIX questions.

Each question carries 5 marks.

11. Explain why wealth maximization is considered to be superior to profit maximization goal.
12. Explain any two discounted method of capital budgeting
13. Define and distinguish between risk and uncertainty.

14. Explain the factors that affect the working capital requirements of a firm.
15. Compute the Economic Order Quantity with the help of following data:
Annual usage = 10,000 units, fixed cost per order Rs. 500, Purchase price per unit = Rs. 150. Carrying cost = 20% of inventory value.
16. Explain M-M theory of dividend.
17. Discuss the factors that affect dividend policy of a company.
18. How does factoring help the firm as a source of working capital finance ? Explain.

SECTION - III (3 × 10 = 30)

*Answer THREE questions.
All questions carry 10 marks.*

19. Why are discounted methods of evaluation better than non-discounted method ? Explain.
20. What do you understand by working capital ? Discuss in brief the various components of working capital.

21. Read the problem given below and answer the questions given at the end. A company is considering an investment proposal to install new machinery at a cost of Rs. 50,000. It has a life span of 5 years and no salvage value. The Tax rate is 50%. Assume that the firm uses straight line method for depreciation and it is allowed for tax benefits. The estimated cash flows before depreciation and tax (CFBT) are as given below.

Year	CFBT (Rs.)
1	10000
2	11000
3	12750
4	13500
5	21000

You are required to compute:

- a) Pay back period
 - b) NPV at 10% discount rate (Do not take the help of table values).
22. What are the sources of working capital finance available to a firm ? Discuss.
23. Explain any two theories of dividend decisions with example.