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47 (Sem-4) FM (4026) N

2022

**FINANCIAL MANAGEMENT**

Paper : BBA-HC-4026

Full Marks : 80

Time : Three hours

***The figures in the margin indicate  
full marks for the questions.***

1. Answer the following :  $1 \times 10 = 10$

A. Fill in the blanks :

(i) According to MM theory, the total value of the firm is \_\_\_\_\_.

(ii) Degree of operating leverage = \_\_\_\_\_.

(iii) Issue of bonus share is a remedial measures for \_\_\_\_\_.

(iv) When a firm is unable to earn a fair rate of return on its outstanding securities it is \_\_\_\_\_ capitalised.

(v) When a company's actual capitalisation is lesser than its proper capitalisation it is known as \_\_\_\_\_.

Contd.



B. State whether True **or** False :

- (vi) Financial management should be concerned with maximisation of wealth.
- (vii) Profit is a barometer for measuring the performance of a business.
- (viii) Allocation of annual income is not an exclusive responsibility of the financial manager.
- (ix) Convertible shares can be converted into ordinary equity shares without any terms and conditions.
- (x) Debenture holders are the owners of the company.

2. Answer the following : **(any five)**  $2 \times 5 = 10$

- (i) What is cost of retained earnings ?
- (ii) What do you mean by trading on equity ?
- (iii) What is EOQ ?
- (iv) What is fixed working capital ?
- (v) What is explicit cost ?
- (vi) What do you mean by "danger level of inventory" ?
- (vii) What is "Time value of money" ?

3. Answer the following : **(any four)**  $5 \times 4 = 20$

- (i) Differentiate profit maximisation and wealth maximisation.



- (ii) Write a note on MM hypothesis.
  - (iii) What is cost of capital ? Explain the rationale behind the use of after tax weighted average cost of capital.
  - (iv) What do you mean by stable dividend policy ? Explain.
  - (v) Write a note on ABC analysis with its advantages.
  - (vi) "There is a rationale in using wealth maximisation concept as an operating financial management policy." Do you agree ? Justify.
  - (vii) What is finance function ? What are its functional areas ?
  - (viii) Explain the relation between margin of safety and degree of operating leverage.
4. Answer the following : **(any five)**  $8 \times 5 = 40$
- (i) Explain the objectives of holding inventories. Also write a note on VED analysis.
  - (ii) What is working capital ? Explain the factors affecting the determination of working capital requirements.
  - (iii) Explain the different kinds of leverage with its significance.
  - (iv) Discuss the traditional and modern method of capital budgeting.



- (v) Describe *three* main decisions to be taken under financial management.
- (vi) What is receivable management ? Explain the different factors used in forecasting receivables.
- (vii) Two companies A and B are in the same type of business and hence have similar operating risk. However, the capital structure of each of them is different and following are the details :

	Company A	Company B
Equity share capital (face value of ₹10 each)	5,00,000	6,00,000
Market value per share	20	12
Dividend per share	1.60	1.30
Debenture (face value of debenture ₹100)	NIL	1,00,000
Market value of debenture	NIL	110
Interest rate	NIL	10%
11% preference share (face value of ₹10 each)	3,00,000	1,00,000

Assume that the current levels of dividend are generally expected to continue indefinitely and the income tax rate is 50%.

You are require to compute the weighted average cost of capital.