

Dr. Babasaheb Ambedkar Open University
Term End Examination July-2016

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|--------------|-------------------------|-------------|------------|
| Course | : BBA/BBAIB | Duration | : 03 hours |
| Subject Code | : BBA/BBAIB (Old) – 304 | Total Marks | : 70 |
| Subject | : Financial Management | Time | : |
| Date | : | | |

Section – A: Answer the following (any three) (30)

1. Explain financial management and economics.
2. Difference between equity capital and preference capital.
3. Write different capital structure theories with examples.
4. What is inventory management? What is the purpose of inventory management?
5. Explain the components of Cash Flows in brief.

Section – B: Answer the following (any four) (20)

1. Astral pipe issued 10,000 12% preference share of Rs. 100 each. Cost of issue is Rs. 1.50 per share. Calculate cost of preference capital if these shares are issued (1) at premium of 10% (2) at a discount of 5%.
2. What is derivatives? Explain future contracts.
3. One company invested in machine costing Rs. 2,50,000. It makes the following cash flows:

| Year | Cash Inflows (Rs.) | Discount factor at 10% (Rs.) |
|------|--------------------|------------------------------|
| 1 | 90,000 | 0.909 |
| 2 | 80,000 | 0.826 |
| 3 | 70,000 | 0.751 |
| 4 | 60,000 | 0.683 |
| 5 | 50,000 | 0.621 |

Taking the cut-off rate as 10%, give your opinion whether the investment is fruitful or not.

4. Evaluate the financial details of the followings companies through financial and operating leverages.

| Particular | Company – A | Company – B |
|---------------|---------------|---------------|
| Sales | Rs. 10,00,000 | Rs. 15,00,000 |
| Variable cost | 30% sales | 25% sales |
| Fixed cost | Rs. 3,00,000 | Rs. 4,25,000 |
| Interest | Rs. 60,000 | Rs. 75,000 |

5. What is strategic financial management?
6. Explain explicit cost and implicit cost.

Section – C:

(1) Explain following Terms: (10)

- (1) Breakeven Point
- (2) Commercial Paper
- (3) Credit Policy
- (4) Exchange Rate
- (5) Trend Analysis

(2) Give the correct answer for the following questions (10)

- (1) Company cannot issue in the form of capital is _____
 - a. Preference share
 - b. Equity share
 - c. Warrants
 - d. Debenture
- (2) Proportion of Equity and _____ is very important in capital structure.
 - a. Debt
 - b. Assets
 - c. Profit
 - d. None
- (3) Negative working capital appears when...
 - a. Total Liabilities exceeds total assets
 - b. Current liabilities exceeds current assets
 - c. Total assets exceeds total liabilities
 - d. Current assets exceeds current liabilities
- (4) Cash benefits here represent _____ ignoring interest payment.
 - a. CBAT
 - b. CFTA
 - c. CFAT
 - d. None
- (5) Which option gives a right to buy the share at predetermined price at future date?
 - a. Call Option
 - b. Demand Option
 - c. Cash Option
 - d. Put Option

