

3.

**BBA 3rd Semester Exam., 2018**

**FINANCIAL MANAGEMENT—2**

Time : 3 hours

Full Marks : 60

**Instructions :**

- (i) The marks are indicated in the right-hand margin.
- (ii) There are **SEVEN** questions in this paper.
- (iii) Attempt **FIVE** questions in all.
- (iv) Question Nos. 1 and 2 are compulsory.

1. Choose the correct answer of the following  
(any six) : 2×6=12

- (a) The formula used to calculate current ratio is
- (i) current assets/current liabilities
  - (ii) current liabilities/current assets
  - (iii) inventory/current liabilities
  - (iv) current liabilities/inventory

( Turn Over )

(b) For a healthy business the current ratio lies between

- (i) 0 to 1.5
- (ii) 1.5 to 3
- (iii) 3 to 4.5
- (iv) 4.5 to 6

(c) The symptom of large inventory accumulation in anticipation of price rise in future will be indicated by

- (i) asset turnover ratio
- (ii) working capital turnover ratio
- (iii) inventory turnover ratio
- (iv) All of the above

(d) The comparison of financial data of same time period of different organizations engaged in similar business is

- (i) time series analysis
- (ii) cross-sectional analysis
- (iii) spatial data analysis
- (iv) None of the above

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- (e) An example of fixed asset is
- (i) live stock
  - (ii) value stock
  - (iii) income stock
  - (iv) All of the above
- (f) The assets held by a business which can be converted in the form of cash, without disturbing the normal operations of a business are
- (i) tangible assets
  - (ii) intangible assets
  - (iii) fixed assets
  - (iv) current assets
- (g) The return which the company pays on borrowed funds is termed as
- (i) dividend
  - (ii) interest
  - (iii) bonus
  - (iv) All of the above

( Turn Over )

- (h) Which of the following is (are) the type(s) of capital budgeting decision(s)?
- (i) diversification
  - (ii) replacements
  - (iii) expansion
  - (iv) All of the above
- (i) Which of the following is (are) the external source(s) of cash?
- (i) Long-term loans
  - (ii) Short-term borrowings
  - (iii) Issue of new shares
  - (iv) All of the above
- (j) The total cost that arises when the quantity produced is increased by one unit is called
- (i) average cost
  - (ii) marginal cost
  - (iii) fixed cost
  - (iv) unit cost

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( Continued ) AK

2. Answer short answer-type questions (any three) :  $4 \times 3 = 12$

- (a) How do you compute the Present Value (PV) of a single cash flow?
- (b) Explain the various types of risks that prevail, while making financial decisions by firms.
- (c) Explain the key techniques adopted by firms in capital budgeting process.
- (d) Explain the three approaches for designing and determining a firm's capital structure, with suitable example and illustrations for each approach.
- (e) Explain the determinants of working capital for firms.

Answer long answer-type questions (any three) :  $12 \times 3 = 36$

3. XYZ Co. has plan to issue 7000, eleven percent Debentures of ₹ 100 each at a discount of 5%. The debentures are redeemable after 4 years and the commission payable to brokers and underwriters is ₹ 32,000. Calculate the after-tax cost of the debt, if the tax rate is assumed as 50%.

( Turn Over )

4. Calculate the Operating Leverage, Financial Leverage and Combined Leverage for a firm using the following information :

Sales 60000 units at ₹ 10 per unit ; variable cost at ₹ 4 per unit ; the fixed cost is ₹ 2,00,000.

Also 10% debentures of ₹ 3,00,000 were raised by the firm.

- 5. What are the factors affecting working capital management decisions?
- 6. What are the differences between NPV and IRR?
- 7. Discuss the pay-back method of evaluating alternative capital expenditure decision.

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