



DA-010-001402

Seat No. _____

B. B. A. (Sem. IV) (CBCS) Examination

April / May - 2015

Financial Management - II

Faculty Code : 010

Subject Code : 001402

Time : $2\frac{1}{2}$ Hours

[Total Marks : 70

SECTION - I

M.C.Qs

20

- 1 Gross working capital indicates
 - (A) Total current liabilities
 - (B) Total current assets
 - (C) Total fixed liabilities
 - (D) Total fixed assets
- 2 Which of the following is not an example of current liability ?
 - (A) Prepaid expenses
 - (B) Bank overdraft
 - (C) Sundry creditors
 - (D) Short term borrowings
- 3 Conversion of cash into inventory, inventory into receivables and receivables into cash is known as
 - (A) Operating cycle
 - (B) Cash cycle
 - (C) Production cycle
 - (D) Business cycle
- 4 In a normal course of business, which of the following is not considered as the source of working capital ?
 - (A) Accrued expenses
 - (B) Trade credit
 - (C) Cash credit
 - (D) None of the above
- 5 Bad debt is
 - (A) Collection cost
 - (B) Capital cost
 - (C) Default cost
 - (D) Delinquency cost

- 6** When credit standards are relaxed, sales volume
- (A) Increases
 - (B) Decreases
 - (C) Remains stable (as there is no connection)
 - (D) None of the above
- 7** Size of order and carrying cost are
- (A) Inversely related
 - (B) Directly related
 - (C) Not related
 - (D) None of the above
- 8** Holding cash to meet unpredictable obligations is
- (A) Compensation motive
 - (B) Speculative motive
 - (C) Transaction motive
 - (D) Precautionary motive
- 9** Implicit cost is
- (A) Fixed cost
 - (B) Social cost
 - (C) Opportunity cost
 - (D) All of the above
- 10** Cost of capital is also known as
- (A) Cut off rate
 - (B) Hurdle rate
 - (C) Minimum required rate of return
 - (D) All of the above
- 11** Which of the following statements is incorrect in the context of cost of capital ?
- (A) Cost of equity is higher than the cost of debt
 - (B) Overall cost of capital does not remain constant
 - (C) There is no cost of retained earnings
 - (D) Cost of capital is the minimum expectation of investors
- 12** Composite cost of capital is known as
- (A) WCAC
 - (B) WACC
 - (C) WCCA
 - (D) WAAC

- 13** The firm's ability to use fixed operating costs to magnify the effects of changes in sales on its earnings before interest and taxes is
- (A) Operating leverage
 - (B) Financial leverage
 - (C) Combined leverage
 - (D) Reverse leverage
- 14** Degree of combined leverage measures percentage change in EPS as a result of
- (A) Percentage change in EBIT
 - (B) Percentage change in profit
 - (C) Percentage change in sales
 - (D) Percentage change in cost
- 15** Under estimation of earnings is a cause of
- (A) Undercapitalization
 - (B) Overcapitalization
 - (C) Normal capitalization
 - (D) No capitalization
- 16** Redemption of preference shares is a remedy of
- (A) Overcapitalization
 - (B) Undercapitalization
 - (C) Fair capitalization
 - (D) None of the above
- 17** From company's viewpoint, interference in management is a disadvantage of
- (A) Debentures
 - (B) Preference shares
 - (C) Equity shares
 - (D) Loans
- 18** Rate of preference dividend
- (A) Is fixed
 - (B) Fluctuates
 - (C) Is always zero
 - (D) Can't say
- 19** Venture capital is
- (A) High risk low return capital
 - (B) Low risk low return capital
 - (C) Low risk high return capital
 - (D) High risk high return capital
- 20** In the context of instruments of finance, GDR stands for
- (A) General Depository Receipts
 - (B) Grand Depository Receipts
 - (C) Global Depository Receipts
 - (D) Green Depository Receipts

SECTION - II

1 Discuss in detail sources of working capital. 10

OR

1 Explain determinants of working capital requirement of a firm. 10

2 Discuss motives for holding cash in the business firm. 10

OR

2 Explain any two techniques of inventory management. 10

3 ABC Company has debentures outstanding with 10 years left before maturity. The debentures are currently selling for Rs. 80 (the face value is Rs. 100). The debentures are to be redeemed at 10% premium. The interest is paid annually at a rate of interest of 15%. The firm's tax rate is 50%. Calculate k_d . 10

OR

3 Write notes on :

(1) Explicit cost and implicit cost of capital 5

(2) Calculation of overall cost of capital 5

4 Discuss in detail causes, effects and remedies of under-capitalization. 10

OR

4 Calculate the degree of operating leverage for each of the four firms, A, B, C and D from the following information. For the calculation purpose, use base level of sales of 10,000 units in each case. 10

<i>Particulars</i>	<i>Firms</i>			
	<i>A</i> <i>Rs.</i>	<i>B</i> <i>Rs.</i>	<i>C</i> <i>Rs.</i>	<i>D</i> <i>Rs.</i>
Sales price per unit	40	64	100	140
Variable cost per unit	12	32	40	100
Fixed Operating cost	1,60,000	80,000	4,00,000	Nil

5 Explain following as long term sources of finance :

(1) Debentures 5

(2) Retained earnings. 5

OR

5 Write a note on Lease Finance. 10