

(i) Printed Pages : 4

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(ii) Questions : 14

Sub. Code :

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Exam. Code :

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Bachelor of Business Administration 2nd Semester

1046

FINANCIAL MANAGEMENT

Paper : BBA126

Time Allowed : Three Hours]

[Maximum Marks : 80

Note : Attempt any **four** questions from Section A each of 5 marks.
Attempt **two** questions from each of Section B and Section C,
each carrying 15 marks.

SECTION-A

- I. Explain what is cost of debenture. How is it computed ? 5
- II. What do you mean by 'time value of money' ? Explain with examples. 5
- III. What is probability index method for Capital Budgeting ? How is it a better tool ? 5
- IV. Explain the term 'Capital Gearing' with the help of examples. 5
- V. Explain and illustrate 'Financial Leverage'. 5
- VI. What is production cycle ? How does it influence working capital ? 5

SECTION-B

- VII. (a) What is IRR ? Is it better than NPV method ? Explain.
- (b) HLL has provided the following information and requested you to calculate :
- (i) WACC using book-value weights and
 - (ii) Weighted marginal cost of capital (assuming that specific costs do not change).

Source of Finance	Amount (Rs)	Weights (%)	After Tax Cost (%)
Equity Capital	14,00,000	0.452	9
Preference Capital	8,00,000	0.258	12
Debenture Capital	9,00,000	0.290	16

HLL wishes to raise an additional capital of Rs 12,00,000 for the expansion programme. The details of sources of funds are as follows :

Equity capital	Rs 6,00,000	
Preference capital	Rs 3,00,000	
Debenture capital	Rs 3,00,000	5,10

VIII. Write notes on :

- (a) Wealth maximisation
- (b) Pay back period method
- (c) Cost of capital

5,5,5

IX. What do you mean by financial management ? Explain the basic financing decisions. 15

X. Zenith Industries Ltd. are thinking of investing in a project costing Rs 20 lakhs. The life of the project is five years and the estimated salvage value of the project is Zero. Straight line method of depreciation is followed. The tax rate is 50 %. The expected cash flows before tax are as follows :

Year	1	2	3	4	5
Estimated cash flow before depreciation	4	6	8	8	10

and tax (Rs. lakhs)

You are required to determine the :

- (i) Pay back period
- (ii) Average rate of return
- (iii) Net present value
- (iv) Internal rate of return. Cost of capital is 10 %. Also calculate profitability index. 15

SECTION-C

XI. Discuss meaning and importance of capital structure what are the factors which determine capital structure of a co ? 15

XII. Discuss the theories which say that dividend policy is relevant. 15

XIII. (a) Explain Net Operating Income approach of capital structure.

- (b) Venket Int'l Company Ltd expects operating profits (EBIT) of Rs 100,000. The company has raised 12 per cent debentures of Rs 3,00,000, The company's equity capital cost is 13 per cent. Determine the value of the firm and cost of capital.

8,7

XIV. Proforma Cash sheet of a Company provides the following particulars.

Material	40 %
Direct Labour	20 %
Overheads	20 %

The following information is also available :

- (a) It is proposed to maintain a level of activity of 2,00,000 units.
- (b) Selling price is Rs 12 per unit.
- (c) Raw materials are expected to remain in store for an average period of one month.
- (d) Materials will be in process on an average half a month.
- (e) Finished goods are required to be in stock on an average for a period of one month.
- (f) Credit allowed to debtors is two months.
- (g) Credit allowed by suppliers is one month. Estimate Working Capital required.

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