4/5/2024

(i) Printed Pages : 4 Roll No. ....

(ii) Questions : 14

Sub. Code : | 0 | 8 | 8 | 0 |

Exam. Code : | 0 | 0 | 2 | 4 |

Bachelor of Business Administration 4th Semester

(2054)

FINANCIAL MANAGEMENT

Paper–BBA-222

Time Allowed : Three Hours] [Maximum Marks : 80

Note :—(1) Attempt any **FOUR** questions each carrying **5** marks from Section-A.

(2) Attempt any **TWO** questions each from Section-B and Section-C respectively carrying **15** marks each.

SECTION—A

1. What is the need of wealth maximization ?

2. What are the limitations of Pay Back Period Method of Capital Budgeting ?

3. A company raised loan of Rs. 5,00,000 by 10% debentures issued at 10% discount for a period of ten years, underwriting costs are 2% and tax rate is 50%. Calculate cost of debt after tax.

4. The following information has been calculated for A Co. :

   Trade receivables collection period : 52 days

   Raw material inventory turnover period : 42 days

   Work in progress inventory turnover period : 30 days

Trade payables payment period : 66 days

Finished goods inventory turnover period : 45 days

Calculate operating cycle period for A Co.

5. Calculate Operating Leverage and Financial Leverage for a Firm using the following information : Sales 60,000 units at Rs. 10 per unit; Variable cost at Rs. 4 per unit; The Fixed Cost is Rs. 2,00,000; Also 10% Debentures of Rs. 3,00,000 were raised by the firm.

6. Compute the compound interest on Rs. 4,000 for 2 years at 10% per annum compounded half-yearly.

SECTION—B

7. Define Financial Management. What is the scope of finance function in a business enterprise ? Explain the goals of financial management.

8. What is time value of money ? Give the applications of compounding and discounting techniques.

9. A company is considering whether to purchase a new machine. Machines A and B are available for Rs. 8,00,000 each. Earnings after taxation are as follows :

Year	Cash Inflows from Machine A (Rs.)	Cash Inflows from Machine B (Rs.)
1	2,40,000	80,000
2	3,20,000	2,40,000
3	4,00,000	3,20,000
4	2,40,000	4,80,000
5	1,60,000	3,20,000

Evaluate the two alternatives using the following : (a) Payback method, (b) Internal rate of return, (c) Net present value method using a discount rate of 10%.

10. The ZEE Ltd. has the following Book Value Capital Structure as on March 31, 2022 :

6,00,000; Equity Share at Rs. 10 each fully paid

10,000; 9% Preference Shares of Rs. 100 each

30,000; 12% Debentures of Rs. 100 each.

The equity share of the Company sells at Rs. 20 per share. The dividend expected next year is Rs. 2.5 per share, which is expected to grow at 5% per annum. The preference shares are redeemable after 5 years at a Redeemable value of Rs. 120. Corporate tax rate is 30%. You are required to determine the Weighted Average Cost of Capital (WACC) of the company based on book value weights.

SECTION—C

11. What is dividend decision ? Explain the relevance and irrelevance theories of dividend decision.

12. What is optimal capital structure ? What factors affect the capital structure decision of the companies ?

13. XY Ltd. needs Rs. 50,00,000 for the installation of a new factory. The new factory is expected to yield annual Earnings Before Interest and Tax (EBIT) of Rs. 10,00,000. In choosing a financial plan, XY Ltd. has an objective of maximising earnings per share. It is considering the possibilities of issuing ordinary shares and raising debt of Rs. 5,00,000 or Rs. 20,00,000 or Rs. 30,00,000. The current market price per share is Rs. 300 and is expected to drop to Rs. 250 if

the funds are borrowed in excess of Rs. 20,00,000. Funds can be raised at the following rates :

- Upto Rs. 5,00,000 at 10%
- Over Rs. 5,00,000 to Rs. 20,00,000 at 15%
- Over Rs. 20,00,000 at 20%

Assuming a tax rate of 50%, advise the company on optimal capital structure.

14. X Ltd. sells goods at a gross profit of 20%. It includes depreciation as part of cost of production. The following figures for the 12 months period ending 31st December, 2018 are given to enable you to ascertain the requirements of working capital of the company on cash cost basis. In your working you are required to assume that :

(i) A safety margin of 15% will be maintained,

(ii) Cash is to be held to the extent of 50% of current liabilities,

(iii) There will be no work in progress,

(iv) Tax is to ignored.

(v) Stock of raw materials and finished goods are kept at one month's requirements.

Sales-at 2 months credit	Rs. 27,00,000
Materials consumed (suppliers credit is for 2 months)	Rs. 6,75,000
Wages (paid one month in arrear)	Rs. 5,40,000
Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear)	Rs. 60,000
Total administration expenses (paid as above)	Rs. 1,80,000
Sales promotion expenses-paid quarterly and in advance	Rs. 90,000