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Bachelor of Business Administration 4th Semester

(2055)

FINANCIAL MANAGEMENT

Paper : BBA–222

Time Allowed : Three Hours] [Maximum Marks : 80

Note :— Attempt any **four** questions from Section–A. Each question in this section carries **5** marks. Attempt any **two** questions each from Sections–B and C respectively. Each question in these sections carries **15** marks.

SECTION—A

1. What is operating cycle in working capital ?

2. What is the importance of capital budgeting ?

3. For a company the capitalization rate is 11% and EPS is Rs. 20. When rates of return on investment are 12% and 11%, determine value of its share as per Gordon's model when dividend payout ratio is 30%.

4. Calculate the compound value of Rs. 10,000 at the end of 3 years at 12% rate of interest when interest is calculated on (a) yearly basis, and (b) quarterly basis.

5. A project costs Rs. 5,00,000 and has a scrap value of Rs. 20,000 after 5 years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs. 20,000. You are required to calculate the average rate of return on investment.

6. A firm has sales Rs. 20,00,000, variable cost of Rs. 14,00,000 and fixed costs of Rs. 4,00,000 and debt of Rs. 10,00,000 at 10% rate of interest. What are the operating, financial and combined leverages ?

SECTION—B

7. "A rational investor has time preference for money." Explain the statement. What are compounding and discounting techniques for calculation of time value of money ?

8. What do you mean by financial management ? Explain the scope and objectives of financial management.

9. The following is the capital structure of Sehgal Ltd. as on 31-12-2004 :

	Rs.
Equity shares - 20,000 shares of Rs. 100 each	20,00,000
10% Preference shares of Rs. 100 each	8,00,000
12% Debentures	12,00,000

The market price of the company's shares is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6% :

(i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.

(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 20 Lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from Rs. 10 to 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

10. Makkar Ltd. is considering an investment proposal to purchase a machine costing Rs. 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows :

Year	CFBT (Rs.)
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate :

(a) Payback period;

(b) Average Rate of Return;

(c) Net Present Value at 10% discount rate;

(d) Profitability Index at 10% discount rate.

SECTION—C

11. What is capital structure ? Explain different approaches of capital structure.

12. Explain the various factors which influence the dividend decision of a firm.

13. The management of Arya Ltd. has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product for the above-mentioned activity level, is detailed below :

	Cost per Unit (Rs.)
Raw materials	20
Direct labour	5
Overheads	15
Total cost	40
Profit	10
Selling Price	50

Past trends indicate that the raw materials are held in stock, on an average, for two months. Work-in-process (100% complete in regard to materials and 50% for labour and overheads) will approximate to half-a-month's production. Finished goods remain in warehouse, on an average, for a month. Suppliers of materials extend a month's credit. Two months' credit is normally allowed to debtors. A minimum cash balance of Rs. 25,000 is expected to be maintained.

The production pattern is assumed to be even during the year. Prepare the statement of working capital determination.

14. A company's capital structure consists of the following :

	Rs.
Equity Shares of Rs. 100 each	20 Lakhs
Retained Earnings	10 Lakhs
9% Preference Shares	12 Lakhs
7% Debentures	8 Lakhs

The company earns 12% on it capital. The income tax rate is 50%. The company requires a sum of Rs. 25 Lakhs to finance its expansion programme for which the following alternatives are available to it :

(a) Issue of 20,000 equity shares at a premium of Rs. 25 per share.

(b) Issue of 10% preference shares.

(c) Issue of 8% debentures.

It is estimated that the P/E Ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively. Which of the three financing alternatives would you recommend and why ?