

Question Paper Code : 1741

B.B.A. (Semester-IV) Examination, 2018

FINANCIAL MANAGEMENT

[BBA-402]

Time : Three Hours]

[Maximum Marks : 70

Note : Answer **five** questions in **all**. **Question No. 1** is **compulsory** and it carries **30** marks. Attempt **one** question, which carries **10** marks from each Unit.

1. Answer the following questions : [3x10 = 30]
- (a) What do you mean by 'Shareholders Wealth Maximization' ?
 - (b) What are factors affecting working capital ?
 - (c) Briefly explain stable dividend policy.
 - (d) Is retained earnings free of cost ? Comment.
 - (e) Find out the present value of the following :
 - (i) Rs. 1,500 receivable in 7 years at discount rate of 15%.

- (ii) An annuity of Rs. 1,000 starting at the end of an year at a discount rate of 20%.
- (iii) A perpetuity of Rs. 750 per year forever at a discount rate of 18%.
- (f) What is payback period ?
- (g) Ansh Ltd. has just paid a dividend at the rate of 10% on the equity shares of Rs. 20 each. The expected growth rate of dividends is 7%. Find out the cost of equity share capital. Present market price of the share is Rs. 25.
- (h) What shall be the repercussions if a firm has paucity of working capital ?
- (i) What are the factors which must be considered while designing capital structure ?
- (j) What is interest tax shield ?

UNIT-I

2. Explain the core decision areas of Finance Manager. [10]
3. A company requires an initial investment of Rs. 40,000. The estimated net cash flow are as follows : [10]

Year	1	2	3	4	5	6	7	8	9	10
Net cash flow Rs.	7,000	7,000	7,000	7,000	7,000	8,000	10,000	15,000	10,000	4,000

Using 10% as the cost of capital (rate of discount) determine the following :

- (i) Net present value
- (ii) Profitability index
- (iii) Discounted payback period
- (iv) Internal rate of return

UNIT-II

4. The following is the capital structure of XYZ Ltd : [10]

Source	Book value Amount	Market value	C/C
14% preference capital	Rs. 2,00,000	Rs. 2,30,000	14%
Equity capital	Rs. 5,00,000	7,50,000	17%
10% debt	3,00,000	2,70,000	8%
Reserves and surplus	1,00,000		16%
	11,00,000	12,50,000	

Calculate the weighted average cost of capital, K_0 using book value weights and market value weights.

5. A Ltd. has a share capital of Rs. 1,00,000 divided into share of Rs. 10 each. It has a major expansion program requiring an investment of another Rs. 50,000. The management is considering the following alternatives for raising this amount : [10]

- (i) Issue of 5,000 equity share of Rs. 10 each
- (ii) Issue of 5,000, 12% preference shares of Rs. 10 each
- (iii) Issue of 10% debentures of Rs. 50,000.

The company's present earnings before interest and tax (EBIT) are Rs. 40,000 per annum subject to tax @ 50%. You are required to calculate the effect of each of the above financial plan on the earnings per share if the level of EBIT remains same after expansion.

UNIT-III

6. "The equity share is different from a preference share." Illustrate this statement in the light of preferences available to preference shareholders. [10]

7. (a) What are the costs associated with receivables ? [5]
 (b) What are the motives of holding cash ? [5]

UNIT-IV

8. (a) What do you mean by the liquidity of a firm ? How can the liquidity of a firm be assessed ? [5]
 (b) What is meant by 'Analysis of Financial Statements' ? Discuss its objectives. [5]
9. From the following Profit and Loss Account prepare a common size Income Statement : [10]

Particulars	Year	Year	Particulars	Year	Year
	2004	2005		2004	2005
To cost of goods sold	Rs. 12000	15,000	By net sales	Rs.16000	20,000
To administrative expenses	Rs. 400	400			
To selling expenses	600	800			
To net profit	Rs. 3,000	3,800			
	16,000	20,000			

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