Roll No.

BBA - IV Sem.

18056

B. B. A. Examination, June 2014

Financial Management

(BBA-402)

(New)

Time: Three Hours]

[Maximum Marks: 75

Note: Attempt questions from all Sections as per instructions.

Section-A

(Very Short Answer Questions)

Attempt all the *five* questions. Each question carries 3 marks. Very short answer is required not exceeding 75 words.

3×5=15

- Distinguish between traditional and modern approach of finance function.
- 2. How can you assess financial requirements of an Enterprises?
- Explain briefly the opportunity cost concept of cost of capital.

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- 4. Explain the remedies of overcapitalization.
- Write a short note on importance of working capital.

Section-B

(Short Answer Questions)

Attempt any two questions out of the following three questions. Each question carries 7½ marks. Short answer is required not exceeding 200 words. 7½×2=15

- Describe the urgency method of capital budgeting in brief.
- 7. What do you understand by dividend policy?
- Explain the disadvantages of excessive working capital.

Section-C

(Detailed Answer Questions)

Attempt any *three* questions out of the following five questions. Each question carries 15 marks. Answer is required in detail. 15×3=45

 Describe the Modigliani and Miller-Irrelevance theory.

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10. The capital structure of a company and its specific costs are given below. Find out simple and the weighted average cost of capital of the company:

Sources	Amount	Specific Cost
	(₹)	
Long-term debts	15,00,000	4% (after tax)
Preference shares	10,00,000	12%
Equity shares	20,00,000	15%
Retained earnings	5,00,000	15%
	50,00,000	

11. Compute working capital needs of a borrower on the basis of the following information:

Expected level of production	22,000 tons
Raw material inventory	4 weeks
Processing period	2 weeks
Permanent material in process	200 tons
Finished goods in stock	6 weeks
Credit allowed to customers	8 weeks
Expected ratio of materials to sale price	72%
Wages and overheads	22%
Selling price per ton	₹ 3,000

12. Mittal Tubes Ltd. is considering whether or not to go for a lock-box system. The cost of the system is expected to be ₹1.50 per cheque. The average cheque size will be ₹6,000. The firm can invest in the funds received earlier by using the lock-box system in the money market instruments earning a return of 8% per annum. How much should be the reduction in the cheque collection time for the company to be able to accept the decision about the lock-box? Assume 360 days a year.

- 13. Estimate the cash requirement of Meerut Fruit Co. Ltd. for June, 2014 on the basis of data given below:
 - (i) Sales:

February, 2014 ₹ 25,000

March, 2014 ₹ 20,000

April to June, 2014 ₹ 30,000 per month

Roughly half the sales are for cash. 90% of credit

sales are collected in the month following the

month of sale and the balance one month later.

- (ii) Fruits are always bought for cash to avail of the cash discount of 5%. The purchase budget for the second quarter (April to June) was 15,000 baskets per month at ₹1 per basket.
- (iii) Wages and salaries for the second quarter were budgeted at ₹5,000 per month.
- (iv) Manufacturing and other expenses budget for the quarter:

Cash expenses ₹4,500

Depreciation ₹ 7,500

Selling expenses ₹3,000

Administration

expenses ₹ 2,000 (in April & May only)