Bachelor of Business Administration 2nd Semester

1048

FINANCIAL MANAGEMENT

Paper–BBAS126

Time Allowed : Three Hours]   [Maximum Marks : 80

Note :— Attempt any **FOUR** questions from Section A, each of 5 marks. Attempt any **TWO** questions from each of Section B and Section C, each of **15** marks. Use of non programmable calculator is allowed.

SECTION—A

1. What do you mean by trading on equity ?

2. Give a distinction between Capitalisation, Capital structure and Financial structure.

3. The current price of company's share is Rs. 75 and dividend per share is Rs. 5. Calculate the dividend growth rate if Ke is 12%.

4. Mr. Raghav deposits Rs. 10,000 today at 12% rate of interest, in how many years will this amount grow to Rs. 80,000 ? Work out this problem by using rule of 72 without using compound factor tables.

5. A five years Rs. 100 debenture of a firm can be sold for a net price of Rs. 96.50, rate of interest is 14% P.A., the debenture will be redeemed at 5% premium. If tax rate is 40% calculate after tax cost of debenture.

6. A project under consideration by Excel Ltd. Co. requires a capital invested of Rs. 60 lacs. Interest on loan is 10% P.A., Tax rate is 50%. Calculate the point of indifference for the project if the debt equity ratio insisted by financing agencies is 2 : 1.   4×5=20

SECTION—B

7. What do you mean by business finance ? Discuss various approaches to finance function as well as scope of finance function.   15

8. (a) "A rational human being has a time preference for money." Explain with reasons.   5

   (b) What are the components of cost of capital ? How weighted average cost of capital is computed ? Illustrate.   10

9. (a) A ten, payment annuity of Rs. 5,000 will begin 7 years hence, what is the value of this annuity now if the discount rate is 12% ?   5

   (b) Mr. Gaurav deposits Rs. 5,000 at the end of every year for 5 years and the deposit earns a compound interest at 8% P.A. Determine how much money he will have at the end of 5 years ?   5

(c) Mr. Bhalla is to receive from Indira Vikas Patra Rs. 20,000 after 5 years from now. His time preference for money is 10% P.A. Calculate its present value if the discount factor is 0.621.   5

10. A & H Singh Co. is considering an investment proposal to purchase the machine costing Rs. 2,50,000, having a life expectancy of 5 years with Zero salvage value. Corporate tax rate is 40%, straight line method is used for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows :

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

Calculate :

(a) Pay back period using PV factor by using discount rate 10%.

(b) Average rate of return on the basis of net investment.

(c) Net present value.

Years	1	2	3	4	5
PV factor @10%	0.909	0.826	0.751	0.683	0.621

15

SECTION—C

11. What do you mean by financial leverage ? It works as double edged sword, discuss and justify your answer with suitable illustrations, showing its impact. 15

12. A firm has sales of Rs. 75,000, variable cost of Rs. 42,000 and a fixed cost of Rs. 6,000. It has 9% Rs. 45,000 debts and equity of Rs. 55,000 :

    (a) What is firm's ROI ? Is it favourable ? Support your answer ? 3

    (b) If sale is dropped by 1/3rd of the initial level of sales, what will be the new EBIT ? 4

    (c) At what level the EBT of the firm will be equal to Zero ? 4

    (d) If the firm belongs to an industry whose asset turnover is 3 times, does it have a high or low asset leverage ? 4

13. A firm has EPS of Rs. 50 and capitalization rate is 10%, rate of return on investment is 12%, 8% and 10%. Show the effect of dividend policy on market price of shares using Walter's formula when dividend pay out ratio is (a) Zero% (b) 40% (c) 100%, interpret your results. 15

14. As a management consultant you are required to state the considerations involved in estimating the amount of working capital and which methods you can use for estimating the working capital requirement ? 15