BBA (H) Semester IV Examinations, 2022
Subject: Financial Management
Paper: BBA-4.4

Time: 4 Hours   **Full Marks: 80**

The figures in the margin indicate full marks.
Candidates are required to give their answers in their own wordsas far as practicable.

Answer Question 1 and any five from the rest.

1. **Answer any ten questions:**   **2 ×10 = 20**
    (a) Identify four parameters to decide dividend policy of a company.
    (b) Distinguish between partly convertible debenture and fully convertible debenture.
    (c) What is permanent working capital?
    (d) What is weighted average cost of capital?
    (e) Distinguish between Net Present Value method and Internal Rate of Return in the context of capital budgeting.
    (f) What are the major decision areas of Financial Management?
    (g) Distinguish between future value and present value.
    (h) Distinguish between simple rate of interest and compound rate of interest.
    (i) What do you mean by working capital?
    (j) What is degree of operating leverage?
    (k) What is payback period?
    (l) Distinguish between profitability index and net present value method.
    (m) What is EPS? Write the formula for computing EPS.
    (n) What do you mean by "discounting factor"?
    (o) Write the formula of DFL.

2. Explain in brief the role of Chief Financial Officer.   12

3. What do you mean by wealth maximization? How can you maximize wealth? How wealth maximization is different from profit maximization?   3+3+6=12

4. How do you compute (a) present value of a single amount; (b) present value of an annuity; (c) future value of a single amount and (d) future value of an annuity?
                                                                   3+3+3+3=12

5. a) Consider the following information about X Ltd.

EBIT	Rs. 12, 00,000
EBT	Rs. 3,00,000
Operating Fixed Costs	Rs. 24, 00,000
Preference Dividend	Rs. 60,000
Tax Rate (%)	40

Calculate the degree of operating, financial and combined leverage. By what percentage, the operating profits would increase, if sales increase by 10%?   9+3= 12

P.T.O.

6. Given the following information:

Particulars	Project A	Project B
Initial outlay	Rs. 10, 000	Rs. 20, 000
Cash inflow After Taxes:		
Year 1	8,000	8,000
Year 2	7,000	9,000
Year 3	Nil	7,000
Year 4	Nil	6,000
Service Life (years)	2	4
Required Rate of Return	10%	

Which is the most desirable project – A or B to invest in, and why? Give a support to your answer. 12

7. a) In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt – equity Mix:

Debt as a percentage of total capital employed	Cost of Debt (%)	Cost of Equity (%)
0	5	12
10	5	12
20	5	12.5
30	5.5	13
40	6	14
50	6.5	16
60	7	20

You are required to determine the optimal debt-equity mix for the company.

b) Assuming no taxes and given the earnings before interest and taxes (EBIT), interest (I) at 10% and equity capitalization (K_o), calculate the value of each firm.

Firms	EBIT	I	K_o (percent)
X	2,00,000	20,000	12
Y	3,00,000	60,000	16
Z	5,00,000	2,00,000	15
W	6,00,000	2,40,000	18

Also, determine the weighted average cost of capital for each firm. 6+6=12

8. The following results are expected by XYZ Ltd. By the quarters next year, (all Amount in Rs. '000)

Particulars	Quarter			
	1	2	3	4
Sales	7,500	10,500	18,000	10,500
Cash payments:				
Production Costs	7,000	10,000	8,000	8,500
Selling, Administrative and other costs	1,000	2,000	2,900	1,600
Purchase of Plan and other fixed assets	100	1,100	2,100	2,100

Following information is to be considered:
i)   The debtors at the end of a quarter are $1/3^{rd}$ of the sales for the quarter.
ii) The opening balance of debtors is Rs. 30, 00,000.
iii) Cash on hand at the beginning of the year is Rs. 6, 50,000 and desired balance is Rs. 5, 00,000.
iv) Borrowings are made at the beginning of quarters in which the need will occur in multiples of Rs. 10, 000 and are repaid at end of each quarters. Interest charges are to be ignored.

Prepare:
a)   A cash budget by quarters for the year; and
b)   State the amount of loan outstanding at the end of the year.   6+6=12

9. a) Mr. X wants to do MBA out of his own savings. He needs Rs. 5, 00,000 at the end of 4 years. He wants to save his income for this purpose only at a post office, where he expects 6% rate of interest. How much money he should invest per month.
    b) Mr. Y saves Rs. 10,000 in a Mutual fund scheme which offers12% rate of return. Compute how much he would get after 5 years.   6+6=12
10. a) "Retained earnings have no cost"- Do you agree? Give arguments in favour of your answer.
    b) Explain in brief the weights that you would take into consideration for computing weighted average cost of capital.   7+5=12

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