3/H–65 (viii) (Syllabus–2015)

2022

(November)

BUSINESS ADMINISTRATION

(Honours)

(BBAH–302)

(Financial Management)

(For the Students of 2018 Batch and Onwards)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

PART—A

(*Marks* : 15)

UNIT—I

1. State the objectives of Financial Management. 3

Or

What is meant by time value of money?

UNIT—II

2. Define risk. 3

Or

A firm's capital expenditure is ₹ 40,00,000. Its cash inflows after tax (CFAT) is ₹ 5,00,000 per annum. Compute its pay back period.

UNIT—III

3. What is retained earnings? 3

Or

K. Ltd. issues 12% perpetual preference shares with face value of ₹ 200 each. Compute the cost of preference share assuming no tax.

UNIT—IV

4. What do you mean by financial leverages? 3

Or

State the first proposition of Modigliani-Miller theory.

UNIT—V

5. What are the objectives of cash management? 3

Or

What do you mean by a lock-box system?

PART—B

(*Marks* : 50)

UNIT—I

6. *(a)* What is time value of money? 5

(b) How much should a person save annually to accumulate ₹ 1,00,000 for his daughter's marriage by the end of 10 years at the interest rate of 8%? 5

Or

Briefly explain any *two* of the following : 5×2=10

(a) Portfolio theory

(b) Capital Asset Pricing Model

(c) Arbitrage Pricing Theory

UNIT—II

7. The initial cash outlay of a project is ₹ 50,000 and it generates cash inflows of ₹ 20,000, ₹ 15,000, ₹ 25,000 and ₹ 10,000 in four years.

Using NPV and PI method, appraise profitability of the proposed investment assuming 10% rate of discount. 10

Or

A firm has the following two proposals before it :

		Proposal I (₹)	*Proposal II* (₹)
Cost		11,000	10,000
Cash inflows :			
Year	1	6,000	1,000
"	2	2,000	1,000
"	3	1,000	2,000
"	4	5,000	10,000

Compute the IRR of both the proposals.

UNIT—III

8. A company plans to issue 1000 new Equity Shares of ₹ 100 each at par. The floatation costs are expected to be 5% of the share price. The company pays a dividend of ₹ 10 per share initially and the growth in dividend is expected to be 5%.

   (a) Compute the cost of new issue of Equity Shares.

   (b) If the current market price of an equity share is ₹ 150, calculate the cost of existing equity share capital. 5+5=10

Or

ABC company supplied the following information and requests you to compute the weighted average cost of capital based on Book Values as well as Market values : 10

Source of Finance	*Book value* (₹)	*Market value* (₹)	*After tax cost* (%)
Equity Capital	10,00,000	15,00,000	12
Long-term Debt	8,00,000	7,50,000	7
Preference capital	2,00,000	2,00,000	4
	20,00,000	24,50,000	

UNIT—IV

9. The EBIT of *A* Ltd. is ₹ 40,000. The cost of equity is 15% and the debt capitalization rate is 10%. The total capital of the firm amounts to ₹ 2,00,000 and it can have the following alternative degree of financial leverage :

   Leverage (Debt to total capital) 0%, 20%, 50% and 75%

   Compute the overall cost of capital and the value of the firm for each alternative leverage using the Net Income approach. 10

Or

The following information is available of *X* co. Ltd.

Earning per share (EPS)—₹ 5

Cost of capital—15%

Return on investment :

(a) 20%

(b) 15%

Compute the value of share using Gordon's model assuming the following :

Dividend payout ratio	:	100	75	50	30
Retention ratio	:	0	25	50	70

UNIT—V

10. Determine the working capital required to finance a level of activity of 180000 units of output for a year. The cost structure is as under : 10

Particulars	*Cost per unit* ₹
Raw material	20
Direct labour	5
Overheads (including depreciation of ₹ 5)	15
Total cost	40
Profit	10
Selling price	50

Additional information :

(i) Minimum desired cash balance is ₹ 20,000

(ii) Raw materials are held in stock on an average for 2 months

(iii) Work-in-progress assuming 50% of work completed will approximate to half a month production

(iv) Finish goods remain in warehouse, on an average for a month

(v) Suppliers for materials extend a month's credit and debtors are provided 2 months credit. The cash sales are 25% of total sales

(vi) There is a time lag in payment of wages for a month and half a month in the case of overheads

Or

What is meant by receivables management? Briefly discuss the factors that influence the sizes of investment in receivables. 3+7=10

PART—C

(*Marks* : 10)

(Case Study)

11. *X* Ltd. and *Y* Ltd. are in the same risk class and are identical in every respect except that *X* Ltd. is levered, while *Y* Ltd. is unlevered. The levered firm has ₹ 10,00,000 debentures carrying 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹ 20,00,000. The capitalization rate for an all equity firm is 16%.

You are required to compute the value of each firm using the Net Operating Income approach.

Which of the two firms has an optimal capital structure under NOI approach? Why? 10

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