

**2019**

**( October )**

**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 three reasons for time preferences of money.

3

Or

₹ 1,080 is receivable at the end of one year and the expected rate of interest a person can earn is 8%. Find the present value.

3

( 2 )

UNIT—II

2. What is meant by capital rationing? 3

Or

Define capital budgeting. 3

UNIT—III

3. State any three problems of determination of cost of capital. 3

Or

X Ltd. issues ₹ 50,000 8% debentures at par with a tax rate of 50%. Compute the cost of debt capital. 3

UNIT—IV

4. Differentiate between operating and financial leverage. 3

Or

What is optimal capital structure? 3

UNIT—V

5. What are the motives of holding cash? 3

Or

What are the cost associated with receivables? 3

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( Continued )

( 3 )

PART—B

( Marks : 50 )

UNIT—I

6. (a) Mr. X rent his house for 4 years at an annual rent of ₹ 6,000 with the stipulation that the rent will increase by 5% compounded every year. If the required rate of return is 10%, what is the present value of expected series of rent? 5

- (b) A 4-year annuity of ₹ 5,000 per year is deposited in a bank account that pays 10% interest compounded yearly. What is the future value of annuity? 5

Or

- (a) Briefly explain Capital Asset Pricing Model. 5

- (b) Why is wealth maximization a superior goal than profit maximization? 5

UNIT—II

7. From the following information, calculate Net Present Value (NPV) of the two projects and suggest which of the two projects should be accepted at a discount rate of 10% : 10

Particulars	Project X	Project Y
Initial investment	₹ 20,000	₹ 30,000
Economic life	5 years	5 years
Scrap value	₹ 1,000	₹ 2,000

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( 4 )

The profit before depreciation and after taxation (cash flow) are as follows :

After tax annual cash inflow :

Year	Project X (₹)	Project Y (₹)
1	5,000	20,000
2	1,000	10,000
3	1,000	5,000
4	3,000	3,000
5	2,000	2,000

Or

What makes risk important in the selection of projects? Explain briefly the various methods of evaluating risky projects. 10

### UNIT—III

8. (a) A Ltd. has an equity capital of ₹ 10,00,000. It is expected to declare a dividend of ₹ 3 per share and its expected to grow at 5% per annum. The current market price per share of the firm is ₹ 40. Compute the cost of equity.

(b) A company issues 1000, 7% preference shares of ₹ 100 each at a premium of 10% redeemable after 5 years at par. Compute the cost of preference share capital.

5

5

( Continued )

( 5 )

Or

XYZ Ltd. has the following capital structure:

Source	(₹)
Equity share capital (₹ 10 per share)	5,00,000
Preference share capital	4,00,000
Debenture capital	1,00,000
	<u>10,00,000</u>

Additional Information :

(i) The cost of equity capital is 15% and the cost of preference capital is 12%

(ii) The after-tax cost of debt is 6%

(iii) The market price of each equity share is ₹ 20

Compute the weighted average cost of capital using both book value and market value weights. 5+5=10

### UNIT—IV

9. The expected annual net operating income (NOI) of a company is ₹ 10,00,000. The company has ₹ 50,00,000, 10% debentures. The overall cost of capital is 12.5%. Calculate the value of the firm and cost of equity according to NOI approach.

( 6 )

If the company increases the debt from ₹ 50,00,000 to ₹ 60,00,000, what would the value of the firm?

Or

The following information is available in respect of Y Ltd. :

Capitalization rate 10%

Earnings per share ₹ 50

Assuming rate of return on investment :

(i) 12%

(ii) 10%

Show the effect of dividend policy on market price of shares applying Walter's model when dividend pay-out ratio is as under :

$2\frac{1}{2} \times 4 = 10$

(a) 20%

(b) 40%

(c) 80%

(d) 100%

#### UNIT—V

10. Prepare an estimate of networking capital requirement of PK Company from the data given below :

Estimated cost per unit of production	(₹) p.u.
Raw materials	100
Direct labour	40
Overheads	80

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( Continued )

( 7 )

The following is the additional information:

Selling price per unit	₹ 240
Level of activity	104000 units p.a.
Raw materials in stock	average 4 weeks
Work-in-progress (Assume 100% stage of completion of materials, 50% for labour and overheads)	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 8 weeks
Lag in payment of wages	average 1½ weeks
Cash at bank is expected to be	₹ 25,000

Assume that production is sustained during 52 weeks of the year.

Or

What is credit policy? Explain the objectives of credit policy of a firm.

$3+7=10$

#### PART—C ( Case Study ) ( Marks : 10 )

SHG Ltd. with an EBIT of ₹ 3,00,000 is evaluating a number of possible capital structures for its firm to maximize highest

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return with lowest debt. The following capital structures are given below :

<i>Capital structures</i>	<i>Debt (₹)</i>	<i>Kd (%)</i>	<i>Ke (%)</i>
I	3,00,000	10.00	12.00
II	4,00,000	10.00	12.50
III	5,00,000	11.00	14.00

As a Financial Manager of SHG Ltd., which of the following capital structures will you recommend and why?

10

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