3/H–65 (viii) (R) (Syllabus–2015)

2022

(February)

BUSINESS ADMINISTRATION

(Honours)

(Financial Management)

(BBAH–302)

(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. What are the objectives of financial management? 3

Or

What is the PV of ₹ 5,00,000 receivable after 5 years, if the discount rate is 10%? 3

UNIT—II

2. State any three importances of capital budgeting. 3

Or

What is capital rationing? 3

UNIT—III

3. What is meant by cost of capital? 3

Or

What are the factors affecting cost of capital? 3

UNIT—IV

4. What do you mean by a financial leverage? 3

Or

What is meant by an efficient capital structure? 3

UNIT—V

5. What do you mean by concentration banking? 3

Or

What are the costs associated with receivables? 3

PART—B

(*Marks* : 50)

UNIT—I

6. What are the major finance functions? Explain the three major decisions taken by the finance manager. 4+6=10

Or

Determine the future value at the end of 5 years of the following series of payments at 5% rate of interest : 10

At the end of 1st year—₹ 1,000

2nd year—₹ 2,000

3rd year—₹ 3,000

4th year—₹ 4,000

5th year—₹ 5,000

UNIT—II

7. A company has to make choice between two projects *A* and *B*. The initial capital outlay of the two projects are Project *A* ₹ 1,35,000 and Project *B* ₹ 2,40,000. There is no scrap value at the end of the life of the two projects.

The opportunity cost of capital of the company is 16%. The annual income of the two projects are as follows :

Year	*Project–A* (₹)	*Project–B* (₹)
1	—	60,000
2	30,000	84,000
3	1,32,000	96,000
4	84,000	1,02,000
5	84,000	90,000

You are required to calculate the following for each project : 5+5=10

(a) Profitability Index (PI)

(b) Net Present Value (NPV)

Or

A company has to consider the following project :

	₹
Cost	10,000
Cash inflow :	
Year 1	1,000
2	1,000
3	2,000
4	10,000

Compute the Internal Rate of Return (IRR) and comment on the project if the opportunity cost is 14%. 10

UNIT—III

8. *(a)* A company issues 10000, 10% preference shares of ₹100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹2 per share. Calculate the cost of preference capital. 5

(b) A company plans to issue 1000 new shares of ₹100 each at par. The floatation cost is expected to be 5% of the share price. The company pays a dividend of ₹10 per share initially and the growth rate in dividend is expected to be 5%. Compute the cost of new issue of equity shares. 5

Or

A firm has the following capital structure :

Source	*Amount* (in ₹)
Equity Share Capital (₹10 per share)	10,00,000
Preference Share Capital	8,00,000
Debenture Capital	2,00,000
	20,00,000

Additional information :

(i) The cost of equity capital is 12% and the cost of preference capital is 10%

(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. *X* Ltd. has a net operating income of ₹20,00,000. It employs debt in its capital structure to the tune of ₹1,00,00,000. The cost of debt is 10% and the overall capitalization rate is 12·5%. Find out the value of the firm and cost of equity capital as per NOI approach.

If *X* Ltd. increases the debt in its total capital from ₹1,00,00,000 to ₹1,20,00,000, what would be the cost of equity capital? 10

Or

The earning per share (EPS) of a company is ₹8 and the rate of capitalization applicable to the company is 10%. The company has an option of adopting a payout ratio of 25% and 50%. Using Walter's formula of dividend payout, compute the market value of the company's share if its retained earning is *(a)* 10% and *(b)* 15%. 10

UNIT—V

10. What is meant by receivables management? Discuss the various aspects or dimensions of receivables management. 4+6=10

Or

From the following details, calculate the net working capital required by *ABC* Ltd. after adding 10% for contingencies : 10

Level of activity—104000 units/annum

Cost of production—₹ 170/unit comprising
of Raw material—₹ 80
Direct labour—₹ 30
Overheads—₹ 60

Selling price—₹ 200/unit

Raw material is in stock for 4 weeks

Work in process (50% complete) is in stock for 2 weeks

Finished goods is in stock for 4 weeks

Credit allowed to debtors is 8 weeks

Credit allowed by suppliers is 4 weeks

Outstanding wages is for 1·5 weeks

Cash at bank is expected to be ₹ 25,000

PART—C

(Case Study)

(*Marks* : 10)

11. Companies *A* and *B* are identical in every respect except that company *A* does not use debt in its capital structure, while company *B* employs ₹ 6,00,000 of 15% debt. Assuming that—

(i) all MM assumptions are met;

(ii) corporate tax rate is 50%;

(iii) EBIT is ₹ 2,00,000;

(iv) equity capitalization of company *A* is 20%.

What will be the value of the companies *A* and *B* ? Find out the weighted average cost of capital (K_0) for both the companies. 10

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