Odd Semester, 2020

(Held in March, 2021)

BUSINESS ADMINISTRATION

(Honours)

(BBAH–302)

(For the Students of 2018 Batch and Onwards)

(Financial Management)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

PART—A

(*Marks* : 15)

UNIT—I

1. What is the use of financial management? 3

Or

Find out the present value of an investment which is expected to give a return of ₹ 5,000 p.a. for 10 years and the rate of return is 12% p.a.

UNIT—II

2. Write a short note on one discounted cash flow appraisal technique used in capital budgeting decisions. 3

Or

State different types of risk in capital budgeting.

UNIT—III

3. State any three factors affecting cost of capital. 3

Or

Calculate the company's equity cost of capital when the share is quoted in the market at ₹ 20. The company has paid dividend of ₹ 1 per share with an expected growth rate of 5% per year.

UNIT—IV

4. What do you mean by leverage? 3

Or

What is optimal capital structure?

UNIT—V

5. What are the objectives of cash management? 3

Or

What is operating cycle?

PART—B

(*Marks* : 50)

6. What is the minimum amount which a person should be ready to accept today from a debtor who otherwise has to pay a sum of ₹ 5,000 today, ₹ 6,000, ₹ 8,000, ₹ 9,000 and ₹ 10,000 at the end of year 1, 2, 3, 4 respectively from today with a rate of interest at 14%. 10

Or

Briefly explain—

(a) unsystematic and systematic risk;

(b) arbitrage pricing theory. 5+5=10

7. A company has to make a choice between two projects namely *A* and *B*. The initial capital outlay of two projects are ₹ 1,35,000 and ₹ 2,40,000. There will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual net cash inflows of the two projects are as follows :

Year	*Project A* (in ₹)	*Project B* (in ₹)
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 for each project—

(a) net present value (NPV);

(b) profitablity index (PI).

Comment on the results. 10

Or

Explain the supriority of NPV method over IRR method with regards to capital budgeting. Use an example.

8. *(a)* *X* Ltd. issues 12%, ₹ 100 debentures at par redeemable after 10 years at a premium of 5% on the face value. The tax rate applicable to the company is 25%. Compute the cost of debt capital. 5

(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

Or

Write short notes on the following : 5+5=10

(a) Implicit cost of capital

(b) Weighted average cost of capital

9. *A* Ltd. belongs to risk class of 10% and expects EBIT of ₹ 4,00,000. It employs 8% debt in the capital structure. Find out the value of the firm and cost of equity capital (Ke) if it employs debt to the extent of 20%, 35% and 50% of the total financial requirement of ₹ 20,00,000. 10

Or

Assuming that rate of return expected by investor is 11% , internal rate of return is 12% and earning per share is ₹ 15. Calculate the price per share by 'Gordon approach' if dividend payout ratio is 10% and 30% respectively.

10. A firm uses a continuous billing system that results in an average daily receipt of ₹ 40,00,000. It is contemplating the institution of concentration banking, instead of the current system of centralized billing and collection. It is estimated that such a system would reduce the collection period of accounts receivable by 2 days.

Concentration banking would cost ₹ 75,000 annually and 8% can be earned by the firm on its investments. It is also found that a lock-box system could reduce its overall collection time by 4 days and could cost annually ₹ 1,20,000.

Between concentration banking and lock-box system, which is better? 10

Or

What is credit policy? Explain the objectives of credit policy of a firm. 3+7=10

PART—C

(*Marks* : 10)

(Case Study)

11. The expected annual net operating income 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.

If the company increases the debt from ₹ 50,00,000 to ₹ 60,00,000, what would be the value of the firm? 10

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