4/H–65 (xi) (O) (Syllabus–2015)

2022

(May/June)

BUSINESS ADMINISTRATION

(Honours)

(Financial Management)

(BBAH–402)

(For the Students of 2015, 2016 and 2017 Batches Only)

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 an annuity? 3

Or

Define financial management.

UNIT—II

2. What is the need of capital budgeting? 3

Or

What do you mean by portfolio?

UNIT—III

3. What is weighted average cost of capital? 3

Or

What is the importance of cost of capital?

UNIT—IV

4. What is meant by financial leverage? 3

Or

What is meant by optimal capital structure?

UNIT—V

5. What is the need of working capital? 3

Or

What is meant by credit policy?

PART—B

(*Marks* : 50)

UNIT—VI

6. Explain the wealth maximization and profit maximization objectives of financial management. 10

Or

Mr. *X* deposits ₹ 5,000 at the beginning of each year for 5 years in a bank and the deposits earn a compound interest @ 8% p.a. Determine how much money he will have at the end of 5 years.

UNIT—VII

7. A firm whose cost of capital is 10% is considering two mutually exclusive projects *X* and *Y*. The details are as follows :

Particulars	*Year*	*Project X* ₹	*Project Y* ₹
Cost	0	1,00,000	1,00,000
Net cash inflows	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000

Compute the following : 5+5=10

(a) Net Present Value (NPV) at 10%

(b) Internal Rate of Return (IRR)

Or

What is profitability index? Which is a superior ranking criteria—profitability index (PI) or net present value (NPV)? 10

UNIT—VIII

8. Calculate the explicit cost of debt for each of the following situations : 5+5=10

(i) Debentures are sold at par and flotation costs are 15%

(ii) Debentures are sold at a premium of 10% and flotation costs are 5% of issue price

Assume *(i)* coupon rate of interest on debentures is 15%, *(ii)* face value of debentures is ₹ 100, *(iii)* maturity period is 10 years and *(iv)* tax rate is 35%.

Or

The following information is provided in respect of specific cost of capital of different sources along with the book value (BV) and market value (MV) weights :

Sources	*C/C*	*BV* ₹	*MV* ₹
Equity share capital	18%	0·50	0·58
Preference share	15%	0·20	0·17
Long-term debts	7%	0·30	0·25

Calculate—

(a) the weighted average cost of capital (WACC) using both the BV and MV weights;

(b) the weighted marginal cost of capital (WMCC) using the marginal weights given that the company intends to raise additional funds using 50% long-term debts, 35% preference share and 15% retaining profits. 5+5=10

UNIT—IX

9. *A* Ltd. is expecting an annual EBIT of ₹ 1,00,000. The company has ₹ 4,00,000 in 10% debentures. The cost of equity capital or capitalization rate is 12·5%.

You are required to calculate the total value of the firm according to net income approach (NIA). 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 before an option of adopting a payout ratio of 25% or 50%. Using Walter's formula of dividend payout, compute the market value of the company's share if the rate of return is *(a)* 15% and *(b)* 10%. 5+5=10

UNIT—X

10. What do you mean by working capital management? Explain the factors determining working capital requirements. 3+7=10

Or

A firm uses a continuous billing system which result in an average daily receipt of ₹ 40,00,000. If a concentration banking is introduced, it would reduce the collection period by 2 days. This system would cost ₹ 75,000 p.a. and 8% can be earned by the firm on its investments. It is also found that a lockbox system would reduce the overall collection time by 4 days and would cost ₹ 1,20,000 p.a. Which system would you recommend the company to introduce? 10

PART—C

(Case Study)

(*Marks* : 10)

11. Compute the market value of the firm, value of shares and the average cost of capital from the following information : 10

	₹
Net Operating Income	2,00,000
Total Investment	10,00,000

Equity capitalization rate—

(i) if the firm uses no debt 10%;

(ii) if the firm uses ₹ 4,00,000 debentures 11%;

(iii) if the firm uses ₹ 6,00,000 debentures 13%.

Assume that ₹ 4,00,000 debentures can be raised at 5% rate of interest whereas ₹ 6,00,000 debentures can be raised at 6% rate of interest.

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