

BBA (Honours) 4th Semester Examination, 2023

Subject : Financial Management

Paper : BBA-4.4

Time: 4 Hours

Full Marks : 80

*The figures in the margin indicate full marks.
Candidates are required to give their answers in their
own words as far as practicable.*

Answer question no. 1 and any five from the rest.

1. Answer any ten questions:

2×10=20

- (a) Mention any two functions of the CFO of a firm.
 - (b) What do you mean by Perpetuity?
 - (c) State the formula for calculating present value of a single cash flow.
 - (d) What is NPV?
 - (e) What is meant by Discounting?
 - (f) What is the full form of CAPM?
 - (g) What do you mean by Financial Structure?
 - (h) What is meant by Payback Period?
 - (i) What do you mean by Operating Cycle?
 - (j) Ms. Piyali wants to get Rs. 4,00,000 after 5 years. If the rate of interest is 8% p.a., calculate the amount which she is required to invest at present.
 - (k) What do you mean by highly-gearred capital structure?
 - (l) What is Operating Leverage?
 - (m) What is meant by Permanent Working Capital?
 - (n) What is meant by EOQ?
 - (o) How is Gross Working Capital calculated?
- 2.** (a) Discuss the modern objective of financial management.
- (b) How is it different from the traditional objective of financial management?

6+6=12

3. (a) What is meant by Financial Leverage?
 (b) From the following data of T Ltd. you are required to compute DOL, DFL and DCL:
 Sales: 5,00,000 units @ Rs. 20 p.u.
 Variable Cost p.u.: Rs. 7
 Operating Fixed Cost: Rs. 26,00,000
 Interest @ 12% on the Debentures of Rs. 15,00,000 and 14% on Long Term Loan of Rs. 20,00,000. 3+9=12
4. (a) State the model for calculating cost of debt for redeemable debt securities.
 (b) Dee Ltd. issues 10% Perpetual Debentures of Rs. 8,00,000. The company is in the 35% tax bracket. Calculate the cost of debt if the debentures are issued at (i) par; (ii) 10% discount; and (iii) 10% premium. 3+(3×3)=12

5. From the following particulars calculate the total value of a firm by using Net Income Approach:

Firm	EBIT (Rs.)	Interest @ 10% p.a. (Rs.)	Cost of Equity (Rs.)
P	4,00,000	40,000	12%
Q	10,00,000	4,00,000	15%
R	12,00,000	4,80,000	18%

Ignore taxes.

6. (a) Explain the concept of 'Optimum Capital Structure'. 12
 (b) Discuss the factors affecting Capital Structure of a firm. 3+9=12
7. A project requires an initial investment of Rs. 3,00,000. The life of the project is 5 years and it can generate cash inflows of Rs. 60,000, Rs. 80,000, Rs. 1,00,000, Rs. 1,20,000 and Rs. 40,000 at the end of each year for the next 5 years. Using NPV criterion advise whether the project should be accepted if the required rate of return is 10%. What will be your answer if the required rate of return would be 12%? 6+6=12
8. The financial manager of A Ltd. has formulated various financial plans to finance Rs. 30,00,000 required to implement various capital budgeting projects:
- Either equity capital of Rs. 30,00,000 or 10% Debentures of Rs. 15,00,000 and Rs. 15,00,000 equity;
 - Either equity capital of Rs. 30,00,000 or 13% Preference capital of Rs. 10,00,000 and Rs. 20,00,000 equity;
 - Either equity capital of Rs. 20,00,000 and 10% Debentures of Rs. 10,00,000 or 13% Preference capital of Rs. 10,00,000, 10% Debentures of Rs. 8,00,000 and Rs. 12,00,000 equity.

You are required to determine the indifference point for each financial plan, assuming 35% corporate tax rate, the face of equity shares as Rs. 100. 4+4+4=12

9. With the following information prepare a statement showing the working capital required to finance a level of activity of 10,400 units p.a.:

- (a) Selling price is Rs. 5 p.u.
- (b) The expected ratios of cost to selling price are: (i) Raw-material 40%, (ii) Direct wages 10% (iii) overheads 30%, (iv) Profit 20%.
- (c) Raw-materials are expected to remain in store for an average period of 2 months before being issued for production and materials are in process on an average period of 6 weeks.
- (d) Finished goods will stay in store approximately for 6 weeks before dispatch to customers.
- (e) Credit allowed to debtors is for a period of 2 months.
- (f) Credit allowed by creditors is for a period of 2 months.
- (g) Lag in payment of wages and overheads are for a period of 2 weeks.
- (h) Cash in hand and bank is expected to be Rs. 10,000.

It may be noted that production is carried on evenly during the year and wages and overhead accrue similarly. Assume 4 weeks a month.

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6+6=12

10. Write short notes on any two:

- (a) Cost of retained earnings
 - (b) Weighted marginal cost of capital
 - (c) Capital rationing
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