

BBA 4th Semester Examination, 2024

Subject : Financial Management

Course: BBA-4.4

Time: 4 Hours

Full Marks: 80

The figures in the right hand margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Answer question 1 and any five from the rest.

1. Answer any ten questions.

2×10=20

- (a) What is the modern objective of financial management?
- (b) Mention the model for calculating cost of redeemable debt.
- (c) What is IRR?
- (d) What is meant by Compounding?
- (e) What is EBIT?
- (f) What do you mean by capitalisation?
- (g) What is meant by Soft Capital Rationing?
- (h) What do you mean by Receivables Management?
- (i) What is the goal of working capital management?
- (j) When is the capital structure of a company called 'unlevered'?
- (k) What is Financial Break-even Point?
- (l) When can a firm have negative working capital?
- (m) What is meant by CFAT?
- (n) What is cash budget?
- (o) Give two examples of Explicit Cost of Capital.

2. (a) What is meant by Time Value of Money?

(b) Discuss the reasons for time preference of money.

(c) Mr. Tata wishes to institute a scholarship of ₹5,00,000 for the topper of Trident College of Business Studies every year. He wants to know the present value of investment which would yield 50,000 in perpetuity, discounted at 10%. 2+6+4

3. The Beta coefficient of Chandan Ltd. is 1.2. The company has been maintaining 5% rate of growth in dividends and earnings. The last dividend paid was Rs. 2.40 per share. Return on Government securities is 10%. Return on market portfolio is 14%. The current market price of one share of Chandan Ltd. is Rs. 28. The earnings per share is Rs. 3.90. Calculate the cost of equity capital based on: (i) Dividend Yield Method; (ii) Dividend Growth Model; (iii) Capital Asset Pricing Model. 4×3

4. Discuss the investment, financing and dividend decisions in connection with the financial management of any modern business firm. 12
5. The particulars of three firms F₁, F₂ and F₃ are provided below:

	F ₁ (₹)	F ₂ (₹)	F ₃ (₹)
Sales	250,000	250,000	250,000
Variable Cost	100,000	75,000	50,000
Fixed Operating Cost	100,000	125,000	150,000
Fixed Financial Cost	10,000	5,000	Nil

You are required to calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of Combined Leverage of each firm and comment on the results. 4+4+4

6. A factory produces 84,000 units during the year and sells them @ ₹50 per unit. The cost structure of the product is as follows:

Raw Materials	55%
Labour	18%
Overheads	17%
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	90%
Profit	10%
	<hr/>
	100%

The following additional information is available:

- The activities of purchasing, producing and selling occur evenly year-round
- Raw-materials equivalent to 1½ months supply is stored in godown
- The production process takes 15 days
- Finished goods equal to 1 month's production are carried in stock
- Debtors get 1 month credit
- Creditors allow 2 months credit
- Time lag in payment of wages and overheads is 1 month
- Cash & Bank balance is to be maintained at 15% of the working capital
- 25% of purchases are for cash

Draw a forecast of working capital requirements of the factory. Assume 4 weeks a month. 12

7. (a) State any six assumptions of capital structure theories.
- (b) Exe Ltd. has operating income of ₹40,00,000. The Balance Sheet of the company reflects that it has 10% debentures of ₹10,00,000, and its equity capitalisation rate is 16%. You are required to calculate the value of the firm under Traditional Approach. 6+6

8. A choice is to be made between two competing machines which require an equal investment of ₹50,000 and are expected to generate net cash flows as under:

	Machine A (₹)	Machine B (₹)
End of Year 1	25,000	10,000
End of Year 2	15,000	12,000
End of Year 3	10,000	18,000
End of Year 4	Nil	25,000
End of Year 5	12,000	8,000
End of Year 6	6,000	4,000

The cost of capital of the company is 10%. You have been approached to evaluate the machines under:

- (a) NPV method; and
 (b) Profitability Index method 6+6
9. (a) Mention the different components of working capital of a manufacturing organisation.
 (b) Discuss the factors affecting level of working capital requirement of an organisation. 3+9
10. Write short notes on: 6+6
- (a) Role of CFO
 (b) Cost of retained earnings