(i) **Printed Pages: 4** **Roll No. .....**

(ii) **Questions : 14** **Sub. Code : 0 8 8 0**

Exam. Code : 0 0 2 4

Bachelor of Business Administration 4th Semester

(2042)

FINANCIAL MANAGEMENT

Paper—BBA-222

Time Allowed : Three Hours] **[Maximum Marks : 80**

Note :— (1) Attempt any ***four*** questions, each carrying **5** marks from Section A.

(2) Attempt any ***two*** questions each from Section B and Section C carrying **15** marks each.

SECTION—A

1. X Ltd. which pays no dividends, anticipates a future earnings per share of Rs. 7 per share. The current market price of share is Rs. 55.54, floatation cost 10% of the price of the shares. What is the cost of equity capital ?
2. A company is considering an investment proposal involving an initial cash outlay of Rs. 15,00,000. The proposal has an expected life of 5 years. At a required rate of return of 14%, the proposal has a profitability index of 1.6. Calculate annual cash inflows. The present value of an annuity of Re. 1 at 14% for 5 years is 3.4331.
3. The earnings per share of company Rs. 20 and the rate of capitalisation applicable to the company is 10%. The company has before it an option of adopting a payout ratio of 75%. Using Walter's formula of dividend payout, compute the market value of the company's share if the productivity of retained earnings is 15%. State whether it is an optimal payout ratio.

4. Cam company has decided to put Rs. 30,000 per quarter in a pension fund. The fund will earn interest at the rate of 6% per year, compounded quarterly. Find the amount available in this fund after 10 years.
5. What is financial leverage ? How we compute financial leverage ?
6. What is wealth maximization ?

SECTION—B

7. Define financial management. What is the scope of finance function in a business enterprise ? Explain the role of financial manager in business.
8. "A rational investor should give preference to time value of money." Comment on the statement and write the applications of compounding and discounting techniques.
9. A company is considering a proposal to purchase a new equipment. The equipment will involve a cash outlay of Rs. 5,00,000 and working capital of Rs. 50,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purpose.

   The estimated before tax cash inflows (earnings before depreciation and tax) are given below :

Year	Before tax cash inflows
1	1,80,000
2	2,20,000
3	1,90,000
4	1,70,000
5	1,40,000

   The applicable income tax rate to the company is 35%. The opportunity cost of capital of the company is 10%.

   You are required to calculate :

   (a) Discounted payback period
   (b) Net present value
   (c) Internal rate of return.

The P.V. factors at 10%, 13% and 15% are given as below :

Year	1	2	3	4	5
PV factor @ 10%	0.909	0.826	0.751	0.683	0.621
PV factor @ 13%	0.885	0.783	0.693	0.613	0.543
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497

10. Zed Limited is presently financed by equity shares. The current market value is Rs. 6,00,000. A dividend of Rs. 1,20,000 has just been paid. This level of dividend is expected to be paid indefinitely. The company is thinking of investing in a new project involving an outlay of Rs. 5,00,000 now and expected to generate net cash receipts of Rs. 1,05,000 per annum indefinitely. The project would be financed by issuing Rs. 5,00,000 dentures at the market interest rate of 18%.

    Ignoring tax, calculate :

    (a) The value of equity shares and the gain made by the shareholders if the cost of equity rises to 21.6%.

    (b) Weighted average cost of capital before and after raising debentures.

SECTION—C

11. Explain the determinants of dividend decision.

12. What is optimal capital structure ? What factors affect the capital structure decision of the companies ?

13. Company X and Y are in the same risk class and identical in every respect except that company X uses debt while Company Y does not. The levered firm has Rs. 9,00,000 debentures carrying 10% rate of interest. Both the firms earn 20% operating profits on their total assets of Rs. 15,00,000. Assume perfect capital markets, a tax rate of 35% and capitalisation rate of 15% on an all equity company.
    (a) Compute the value of firms X and Y using Net Income Approach.
    (b) Compute the value of firms using Net Operating Income Approach.
    (c) Using NOI approach, calculate overall cost of capital for both the firms.

14. Prepare an estimate of networking capital requirement of Zero company from the data given below :

Estimated Cost per unit of production	**Amount per unit (Rs.)**
Raw Materials	100
Direct Labour	40
Overheads	80
	220

The following is the additional information :

Selling price per unit	Rs. 240
Level of activity	1,04,000 units per annum
Raw materials in stock	Average 4 weeks
Work in progress [Assume 100% stage of completion of materials and 50% for labour and overheads]	Average 2 weeks
Finished goods in Stock	Average 4 weeks
Credit allowed by Suppliers	Average 4 weeks
Credit allowed to Debtors	Average 8 weeks
Lag in Payment of Wages	Average 1.5 weeks

Cash at Bank is expected to be Rs. 25,000. Assume that production is sustained during 52 weeks of the year.