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

(ii) Questions : 9 **Sub. Code : 0 8 8 0**

**Exam. Code : 0 0 2 4**

**Bachelor of Business Administration 4th Semester**

**(2053)**

# FINANCIAL MANAGEMENT

**Paper— BBA-222**

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

## UNIT—I

Attempt any ***four*** of the following

A. Explain benefits of profit maximization over wealth maximization.

B. Mr. Ridham expects to receive an amount of Rs.6,000 at the end of $6^{th}$ year. Determine the present value of the amount if the discounting rate is 12%.

C. An Investor deposited Rs.35,000 in a bank at 15% rate of interest. In how many years will this amount double ? What are the rules for doubling period ?

D. Explain the formula for calculation of Internal Rate of Return.

E. A company expects a net income of Rs.10,000. It has Rs.2,00,000 8% debentures. The equity capitalization rate of the company is 10%. Calculate the value of firm and overall capitalization rate as per net income approach.

F. A firm at present has a sale of 500 units @ Rs.10/unit. Its variable cost is Rs.7/unit and fixed expenses are Rs.800 pa. The firm's expected sales the next year will be 700 units. Compute degree of operating leverage. 4×5

## UNIT—II

Attempt any *two*

2. What are the principles of financial decision making ? Explain the various factors which a finance manager should keep in mind while taking financial decisions.

3. What do you mean by time value of money ? What are the techniques for calculating time value for money ?

4. Vinod Ltd. is contemplating to invest in a project which will provide the following returns in its life :

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Gross Yield (Rs.) | 80,000 | 80,000 | 90,000 | 90,000 | 85,000 |

Cost of Machinery to be installed will be Rs.2,00,000 and the machinery is to be depreciated at 20% p.a. on WDV basis. Income tax rate is 50%. If average cost of raising capital is 10%. Would you accept this project under IRR method ?

5. Following is the capital structure of a company :

| Sources | Book Value | Market Value |
|---|---|---|
| Equity Shares @Rs.10 | Rs.8,00,000 | Rs.16,00,000 |
| 9% Convertible Preference Shares @ Rs.100 each | Rs.2,00,000 | Rs.2,40,000 |
| 11% Debentures | Rs.6,00,000 | Rs.6,60,000 |
| Retained Earnings | Rs.4,00,000 | nil |

The current market price of equity share is Rs.200. Last year company had paid equity share dividend at 25% and its dividend is likely to grow by 5% every year. The corporate tax rate is 30%, personal income tax rate is 20%. Calculate :

Cost of capital for each source of capital

Weighted average cost of capital. 2×15

## UNIT—III

Attempt any *two*

6. Explain the Net Income Approach. How it is different from Net Operating Income Approach ?

7. Show the effect of financial leverage on ERS by considering the following two financial plans of EBIT :

   (a) Rs. 2,00,000 and

   (b) Rs. 1,00.000.

| | | |
|---|---|---|
| Total funds required | : | Rs.10.00.000 |
| Plan A | : | 100% Equity Shares of Rs.10 each |
| Plan B | : | 50% Equity Shares of Rs.10 and 50% 15% debts |
| Tax Rate | : | 40% |

8. Aditi Enterprises sells goods at a profit of 25%; from the following information, estimate the working capital requirements assuming 15% safety margin :

| | (Rs.) |
|---|---|
| Sales (2 months credit) | 18.00.000 |
| Material consumed (1 month credit) | 4.50.000 |
| Wages (1 month lag in payments) | 3.60.000 |
| Cash Mfg. Expenses (1 month lag in payments) | 4,80,000 |
| Administration expenses (1 month lag in payments) | 1,20.000 |
| Sales promotion expenses (quarterly in advance) | 60.000 |

Income tax payable in 4 installments of which one lies in the next year 1,50,000

The company maintains one month's stock of each raw material and finished goods. It also keeps Rs.1,00,000 in cash.

9. Show the effect of the dividend policy on the market price of its shares, using the Walter's model.

| | |
|---|---|
| Equity capitalization rate (Ke) | 12% |
| Earning per share | Rs. 8 |

Return on investments (1) 15% (2) 10%

Dividend payout ratio is (1) 0% (2) 25% (3) 50%

(4) 75% (5) 100% 2×15