

END TERM EXAMINATION**FIFTH SEMESTER [BBA] NOVEMBER-DECEMBER 2018****Paper Code: BBA-309****Subject: Financial Management****BBA (TTM)-309****BBA (MOM)-309****Time: 3 Hours****Maximum Marks: 75****Note: Attempt any five questions. All questions carry equal marks. Present value tables are allowed.**

- Q1 (a) Find out present value of an investment which is expected to give a return of Rs 20,000 p.a. indefinitely and the rate of interest is 8% p.a.
 (b) An investor deposits a sum of Rs 1,000,00 in a bank account on which interest is credited @ 10.5% p.a. How much amount can be withdrawn annually for a period of 15 years?
 (c) Ten year from now Mr. X will start receiving a pension of Rs 30,000 per year. The payment will continue for sixteen years. How much is the pension worth now, if his interest rate is 8% p.a?
- Q2 ABC Ltd. is considering to invest in a plant requiring outflow of Rs 250 lakh. The plant has an economic life of 5 years. The financial analyst of the company has projected the following cashflow for the project.

(Rs. Lakh)	
Year	Cash Flow
0	(250)
1	50
2	65
3	80
4	90
5	125

The cost of capital is 12%.

You are required to:-

Appraise the project in terms of net present value; benefit cost ratio and internal rate of return.

- Q3 A firm's present market price of the share is Rs 40 and its EPS is Rs 12. The firm is planning to declare 45% of this as dividends. If the firm reinvests its retained earnings at the rate of 14%, what is the cost of its equity according to Gordon dividend capitalization model?
- Q4 The following is the extract from the financial statements of ABC Ltd.

Operating Profit	Rs.105 Lakhs
Less Interest on Debentures	Rs 32 Lakhs
Less Income Tax	Rs 36 Lakhs
Net Profit	Rs 36 Lakhs

Equity share capital (of Rs 10 each)	Rs 200 Lakhs
Reserve and Surplus	Rs 100 Lakhs
15% Debentures (Rs 100 each)	Rs 220 Lakhs
Total	Rs 520 Lakhs

P.T.O.

The market price of equity share and debenture is Rs 12 and Rs 93.75 respectively.

Find out:-

- (a) EPS
- (b) Percentage cost of equity and debentures.

Q5 ABC Ltd. has a total capitalization of Rs. 10,00,000 and normally earns Rs. 1,00,000 (before interest and taxes). The financial manager of the firm earns to take a decision regarding the capital structure. After a study of the capital market, he gathers the following data:-

Amount of Debt (Rs.)	Interest Rate (%)	Cost of Equity K_e (%)
0	-	10.00
1,00,000	4.0	10.50
2,00,000	4.0	11.00
3,00,000	4.5	11.60
4,00,000	5.0	12.40
5,00,000	5.5	13.50
6,00,000	6.0	16.00
7,00,000	6.5	20.00

- (a) What amount of debt should be employed by the firm if the traditional approach is held valid?
- (b) If the Modigliani-Miller approach is followed, what should be the equity capitalization rate?

Assume that corporate taxes do not exist and that the firm always maintains its capital structures on book values.

Q6 Explain the factors considered while determining the need for working capital. Discuss the method of estimation of working capital requirements based on sales.

Q7 Evaluate "Maximization of Profit" and "Maximization of share-holders wealth" as the objective of Financial Management.

Q8 Write a short notes on any three:-

- (a) Venture Capital
- (b) Global Depository Receipts
- (c) Liquidity versus Profitability
- (d) Types of leverages
