Please write your Exam Roll No.) *Exam Roll No.* ....

END TERM EXAMINATION

FOURTH SEMESTER [B.TECH] MAY-JUNE 2025

Paper Code: BBA-204/ BBA(CAM)-204	***Subject: Financial Management [Batch-2021-2023]***

Time: 3 Hours ***Maximum Marks: 60***

Note: Attempt all questions as directed. Internal choice is indicated.

Q1. Attempt **any four** of the following: **(5x4=20)**

(a) What are the reasons in favor of the theory that dividend decisions are not relevant?

(b) What is the effective interest rate in the following two offers by a bank: (i) 9% interest compounded annually and (ii) 8.75% interest compounded quarterly. Which one is better?

(c) What are the reasons for conflicting results as per NPV and IRR methods?

(d) A company has a stock turnover of 12 times, accounts receivable turnover of 8 times, and accounts payable turnover of 9 times. What are the operating cycle and cash conversion cycle of the company? Assume that one year has 360 days.

(e) A project has an initial investment of Rs. 240000, it generates post-tax cash flows of Rs. 120000, 80000, 100000, 60000, and 50000, respectively, for 5 years of its life. If the discounting rate is 10%, what is the discounted pay-back period?

Q2. What are the limitations of the traditional approach of financial management in the context of today's volatile business environment? How does the modern approach of financial management adapt to these changes? Explain the important limitations of the traditional approach and the merits of the modern approach. **(10)**

OR

Q3 (a) How do inflation and deflation impact the time value of money? Discuss with examples how real interest rates are used to adjust for inflation in financial decisions. **(5)**

(b) Define Economic Value Added (EVA) and Market Value Added (MVA). How do these metrics differ in their approach to measuring a company's financial performance? **(5)**

Q4. A firm has the option to invest in two projects with the following details:
Project A: Initial outlay = Rs. 500000; Life = 6 years; Annual cash inflow = Rs. 120000
Project B: Initial outlay = Rs. 500000; Life = 6 years; Annual cash inflow = Rs. 200000 in the first 3 years and Rs. 40000 in the last 3 years.
Compute the IRR of the two projects. Explain which project is better and why? **(10)**

P.T.O.

OR

Q5. How do risk and uncertainty affect capital budgeting decisions? What are the different approaches to counter risk? State their relative merits and demerits of each. (10)

Q6 (a) A company that is presently growing and packing tea is now planning to enter into jute industry. To establish the new project, it requires Rs.2 crores. It has two options as under:
1) 12% Debentures and Equity Shares each of Rs. 1 crore
2) Equity Shares - Rs. 2 crores
Calculate the indifference point and the financial breakeven points. The tax rate may be assumed as 30%. (5)

(b) A Bond having a face value of Rs.100 and a coupon of 12% p.a. will mature in 3 years. The current market price of the bond is Rs 98. Further, issue expenses are Re.1 per bond, and the tax rate is 30%.What is the cost of debt for the company? (5)

OR

Q7 (a) A firm is planning a leveraged recapitalization. How is this decision expected to affect its cost of capital, financial flexibility, control, and creditworthiness? (5)

(b) Explain the arbitrage process of the MM hypothesis of capital structure, with the help of an example. (5)

Q8 (a) Discuss how high dividend payouts may restrict future growth opportunities. How can firms reduce dividends to increase reinvestment capacity? (5)

(b) A company has an annual demand of 100000 units, an ordering cost of Rs. 50 per order, and a holding cost of Rs. 1 per unit per year. Calculate the EOQ. Also, show the relationship between carrying cost and ordering cost graphically. (3+2=5)

OR

Q9 (a) Company RV has an EPS of Rs. 12, DPS of Rs. 6, cost of equity (Ke) is 12%, and an internal rate of return (r) is 10%. What is the price of the share as per the Walter model? Also, suggest the optimum dividend payout ratio that results in the maximum price of the share. Give reasons for your answer. What will be the price of the share if the dividend payout ratio becomes 75% and 100%? (5)

(b) Explain how stock dividends or bonus shares influence investor behaviour in emerging economies such as India. (5)

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