

Paper Code: BBA3306

School of Management, BBD University

Course: IMBA2

Sem: IV

Even Sem Second Sessional Test Paper (2023-24)

Subject: Financial Management

Time: 3 Hours

Max. Marks: 60

SECTION-A

Q1. Attempt **ALL PARTS** of the following: (8*1=8)

- What is mutual funds?
- Explain finance function?
- Define internal rate of return?
- What do you mean by profitability index?
- Explain working capital management?
- What is WACC?
- Define over capitalization?
- What is EBIT?

SECTION-B

Q2. Attempt **ANY TWO** parts of the following: (2*6=12)

- Explain the concept of time value of money?
- What is the difference between PI and IRR?
- Explain the significance of cost of capital?
- A company requires Rs.20,00,000 to finance its operations. Financing options are:
 - Equity 2,00,000 shares @Rs.10 per share=Rs20,00,000
 - Equity 1,00,000 shares @Rs.10 per share=Rs.10,00,000 and debt @6% per annum=Rs10,00,000Which option should the firm go with if it's EBIT is Rs. 4,50,000 and tax is to be paid @10%

SECTION-C

Q3. (Attempt any **TWO PARTS** from the following) (2*5=10)

- What are the finance functions? Explain.
- Differentiate between shares and debentures.
- Explain the scope of financial management?

Q4. (Attempt any **TWO PARTS** from the following) (2*5=10)

- Explain internal rate of return?
- One of your friends needs Rs.1000 now and promised to pay you back Rs.1000 in year. Is that a fruitful investment when you can invest at 20% elsewhere?
- Describe the objectives of capital budgeting?

Q5. (Attempt any **TWO PARTS** from the following) (2*5=10)

- What do you mean by CAPM? Explain the CAPM model.
- Differentiate between working capital management and cost of capital?

C.

The Capital structure of Vikas Ltd, is as follows :

Source	Book value	Market value
a. Equity share capital	10,00,000	20,00,000 (200% of Book value)
b. Retained earnings	5,00,000	—
c. 14% Preference share capital	7,00,000	7,00,000 (Just par)
d. 12% Debentures	6,00,000	6,00,000 (Just par)

After tax cost of capital of these different sources is Equity share capital 18%, Retained earnings 15%, Preference share capital 14%, and Debentures 8%. Calculate the weighted average cost of capital of the company.

Q6. (Attempt any **TWO PARTS** from the following) (2*5=10)

- What is capital structure? Explain capital structure determinants.
- Differentiate between under and optimal capitalization?

C.

A company requires Rs 30,00,000 to finance its operations. Financing options are:

- Equity 3,00,000 shares @ Rs 10 per share = Rs 30,00,000
- Equity 2,00,000 shares @ Rs 10 per share = Rs 20,00,000 and debt @ 10% per annum = Rs 10,00,000.
- Equity 1,00,000 shares @ Rs 10 per share = Rs 10,00,000 and debt @ 10% per annum = Rs 20,00,000.

Rate of return is 6.67%, Earning before interest and taxes (EBIT) = 2,00,000 and Tax Rate = 30%