Term Evaluation Theory (Even) Seme…

Name of the Course: BBA
Semester: 4
Name of the Paper: Financial Management
Paper Code: BBA 403
Time: 1.5 hour

Maximum Marks: 50

Note:
(i) Answer all the questions by choosing any one of the sub-questions
(ii) Each question carries 10 marks.

(10 Marks)

Q1.
a. Explain the concept, nature, and scope of Financial Management. Discuss why financial management is considered an integral part of overall management. CO1

OR

b. Describe the financial environment of a business organization. Explain how economic and institutional factors influence financial decisions.CO1

(10 Marks)

Q2.
a. Explain the role and responsibilities of a Financial Manager in a modern business organization.CO1

OR

CO4

b. A Limited has the following capital structure:

Equity share capital (2,00,000 shares)	Rs. 4000000
6% Preference shares	Rs. 1000000
8% Debentures	Rs. 3000000
Total	Rs. 8000000

The market price of the company's equity share is Rs 20 per share. It is expected that company will pay a dividend of Rs. 2 per share at the end of current year, which will grow at 7 per cent for ever. The tax rate is 30 per cent. You are required to compute the following:

i. A weighted average cost of capital based on existing capital structure.
ii. The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10 per cent debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of share will fall to Rs. 15 per share.
iii. The overall cost of capital if in (*b*) above, growth rate increases to 10 per cent.

(10 Marks)

Q3.
a. Define Cost of Capital. Explain its importance in long-term financial decision making. CO3

OR

b. A company issues 10,000 debentures of ₹ 100 each at ₹ 95.The debentures carry an interest rate of 12% per annum, are redeemable at par after 5 years, and the corporate tax rate is 30%. Calculate the after-tax cost of redeemable debt.
CO2

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Q4. (10 Marks)

a. Define a Company as a form of business organisation. Explain its characteristics and examine why it is considered more suitable for large-scale business operations.CO1

OR

b. A company has an earnings per share (EPS) of ₹ 12. The company follows a policy of distributing 40% of its earnings as dividends. The current market price of the equity share is ₹ 150. The company expects to earn a return of 15% on its retained earnings.
You are required to calculate the cost of equity using the Earnings–Retention (Internal Rate of Return) Approach.CO3

Q5. (10 Marks)

a. Explain retained earnings as a source of finance. Discuss its advantages and limitations.CO1

OR

b. A company issues 10% preference shares of ₹ 100 each at a price of ₹ 95. The company incurs flotation costs of 5% on the issue price. The preference shares are redeemable at par after 8 years.
You are required to calculate the cost of preference share capital.CO3