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BBA/M-17
FINANCIAL MANAGEMENT
Paper: BBA-212

Time: Three Hours   Maximum Marks: 80

Note: Attempt five questions in all. Including Question No.1 which is compulsory. All questions carry equal marks.

Compulsory Question

1. Describe the following :
    (i)   Finance Functions.
    (ii)   Nature of Capital Budgeting.
    (iii)   Commerical Paper
    (iv)   Dividend Policy
    (v)   Operating Cycle concept of Working Capital
    (vi)   Significance of Cost of Capital.

2. "Profit maximization is a pre-requisite for shareholders' wealth maximized." Do you agree? Give your view-point.

3. Define Financial Planning process. What are its two key components?

4. Educidate the relationship between NPV and IRR. When do they differ?

5. Explain the importance of working capital for a manufacturing firm.

6. What are the advantages and disadvantages of debenture as a source of finance from the point of view of company as well as investors?

7. The earnings per share (EPS) of a company is Rs. 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used :

    (i)   What should be the optimum payout ratio of the company?
    (ii)   What would be the price of the share at this payout?
    (iii)   How shall the price of the share be affected, if a different payout were employed?

8. The values for two firms X and Y in accordance with the traditional theory are given below :

	X	Y
Expected operating income	Rs. 50,000	Rs. 50,000
Total cost of debt	0	10,000
Net income	50,000	40,000
Cost of equity	0.10	0.11
Market value of shares	5,00,000	3,60,000
Market value of debt	0	2,00,000
Total value if firm	5,00,000	5,60,000
Average cost of capital	0.10	0.09
Debt equity ratio	0	0.556

Compute the values for firms X and Y as per the MM approach. Assume that (i) corporate income taxes do not exist, and (ii) the equilibrium value of k0 is 12.5%.