

BBA/M-16
FINANCIAL MANAGEMENT
PAPER-BBA-212

Time Allowed: 3 Hours

Maximum Marks: 80

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

1. Compulsory Question

Describe the following :

- (a) Nature of Financial Management.
 - (b) Investment Decisions.
 - (c) Capitalization.
 - (d) Optimal Capital Structure.
 - (e) Dividend.
 - (f) Debentures.
2. “In view of the changing economic and other environmental factors, modern firms are required to design a more responsive finance function.” How do you account for this?
3. What are the steps involved in the preparation of a financial plan ? Discuss.
4. How is Payback period calculated ? How is it useful in determining IRR ?
5. Explain how working capital management policies affect the profitability and liquidity position of a firm.
6. Why the Preference shares are called a hybrid security ? Examine the advantages of financing by Preference share.
7. Sahu & Co. earns Rs. 6 per share having capitalization rate of 10 percent and has a return on investment at the rate of 20 percent. According to Walter’s model, what should be the price per share at 30 percent dividend payout ratio? Is this the optimum payout ratio as per Walter?

8. The following are the costs and values for the firms A and B according to the traditional approach :

	Firm A	Firm B
Total value of firm, V	50,000	60,000
Market value of debt, D	0	30,000
Market value of equity, E	50,000	30,000
Expected net operating income	5,000	5,000
-Cost of debt	0	1,800
Net income	5,000	3,200
Cost of equity, $k_e = NI/E$	10.00%	10.70%

Compute the equilibrium value for firms A and B in accordance with the M-M approach. Assume that (i) taxes do not exist, and (ii) The equilibrium value of k_o is 9.09%.