

4/H-65 (xi) (O) (Syllabus-2015)

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(July)

BUSINESS ADMINISTRATION

(Honours)

(Financial Management)

(BBAH-402)

(For the Students of 2015, 2016
and 2017 Batches Only)

Marks : 75

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

PART—A

(Marks : 15)

UNIT—I

1. What are the differences between present
value and future value? 3

Or

Define financial management. 3

20D/1225

(Turn Over)

UNIT—II

2. What are the limitations of capital
budgeting? 3

Or

What do you mean by portfolio? 3

UNIT—III

3. A Ltd. issues ₹ 50,000, 8% debentures at a
discount of 5%. The tax rate is 50%.
Compute the cost of debt capital. 3

Or

What is the importance of cost of capital? 3

UNIT—IV

4. What is meant by financial leverage? 3

Or

What are the essential features of optimal
capital structure? 3

UNIT—V

5. What is the need for working capital? 3

Or

What is meant by credit policy? 3

20D/1225

(Continued)

(3)

PART—B

(Marks : 50)

UNIT—VI

6. Explain wealth maximization and profit maximization objectives of financial management and differentiate between them. 10

Or

- (a) Mr. A wishes to determine the present value of the annuity consisting of cash inflows of ₹ 1,000 per year for 5 years. The rate of interest he can earn from his investment is 10%. Compute present value of an annuity. 5
- (b) What is beta and what is its relevance in portfolio theory? 5

UNIT—VII

7. A company is considering investment in a project that costs ₹ 2,00,000. The project has an expected life of 5 years with no salvage value. The company uses straight line method of depreciation. The company's tax rate is 25%. The estimated earnings before

(4)

depreciation and before tax from the project are as follows :

Year	Earning before depreciation and tax
1	70,000
2	80,000
3	1,20,000
4	90,000
5	60,000

You are required to calculate the payback period and net present value at 10% discount rate and advise the company. 10

Or

What makes risk important in the selection of projects? Explain briefly the various methods of evaluating risky projects. 4+6=10

UNIT—VIII

8. X Ltd. plans to issue 1000 new shares of ₹ 100 each at par. The floatation costs are expected to be 5% of the share price. The company pays a dividend of ₹ 10 per share initially and the growth in dividend is expected to be 5%. Compute the cost of new issue of equity shares. 10

(5)

Or

A firm has the following capital structure and after-tax costs for the different sources of funds used :

Sources of funds	Amount ₹	Proportion %	After-tax cost %
Debt	15,00,000	25	5
Preference shares	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained earnings	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the weighted average costs of capital. 10

UNIT—IX

9. S. Ltd. and T. Ltd. are identical in all respect and are in the same risk class except that the Company S does use debt while Company T does not use debt. The levered firm has ₹ 9,00,000 debentures carrying 10% interest. Both the firm earns 20% profit on their total assets of ₹ 15,00,000. The company is in the tax bracket of 25% and capitalization rate of 20% on all equity shares.

You are required to calculate the value of S. Ltd. and T. Ltd. using NOI approach. 10

20D/1225

(Turn Over)

(6)

Or

The following information is available in respect of a firm :

Capitalization rate = 10%

Earnings per share = ₹ 50

Assumed rate of return on investments :

(i) 12%

(ii) 8%

(iii) 10%

Show the effect of dividend policy on market price of shares applying Walter's formula, when dividend payout ratio is

(a) 0%

(b) 40%

(c) 80%

10

UNIT—X

10. What do you mean by working capital management? State the importance of maintaining adequate working capital. 3+7=10

20D/1225

(Continued)

(7)

Or

A firm uses a continuous billing system that results in an average daily receipt of ₹ 40,00,000. The institution plans of concentration banking instead of current system of centralized billing and collection. It is estimated that such system would reduce the collection period of account receivables by 2 days.

Concentration banking would cost ₹ 75,000 annually and 8% can be earned by the firm on its investments. It is also found that lockbox system could reduce its overall collection time by 4 days and could cost annually ₹ 1,20,000.

- (a) How much cash would be released with the concentration banking?
- (b) How much money can be saved due to reduction in the collection period by 2 days?
- (c) How much cash would be freed by lockbox system?
- (d) Which of the two systems is better, lockbox or concentration banking? 10

(8)

PART—C

(Case Study)

(Marks : 10)

11. The following is the data regarding two companies A and B belonging to the same risk class :

	Company A	Company B
Number of equity shares	100000	150000
8% debentures	50000	Nil
Market price per share	₹ 2	₹ 3
EBIT	₹ 20,000	₹ 20,000

There is no retained earnings. You are required to explain how under Modigliani and Miller approach, an investor holding 10% of shares in Company A will be better off in switching his holding to Company B. 10

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