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BBA-502

Financial Management

(वित्तीय प्रबन्ध)

Bachelor of Business Administration

(BBA-10/12/16/17)

5^{TH} Semester, Examination-2019

Time : 3 Hours **Max. Marks : 80**

Note - This Paper is of Eighty (80) marks divided into two (02) Sections A and B. Attempt the Questions contained in these sections according to the detailed instructions given therein.

Section - A

(Long-Answer-Type Questions)

Note - Section 'A' contains Five (05) long-answer-type questions of Fifteen (15) marks each. Learners are required to answer any Three (03) questions only.

(3 × 15 = 45)

1. What are the major types of financial decisions that a business firm makes?

Using the information provided above answer the following :

1. Calculate for each project

   a) The Payback
   b) The Average Rate of Return
   c) The Net Present Value
   d) The Profitability Index

2. which project should be accepted and why?

5. In considering the most desirable capital structure for a company, the following estimates of the cost of debt and equity captial after tax have been made at various levels of financial leverage :

Debt as percentage of total capital employed	Cost of Debt	Cost of Equity
0	5	12
10	5	12
20	5	12.5
30	5.5	13
40	6	14
50	6.5	16
60	7	20

You are required to determine the optimal debt-equity mix for this company after calculating composite cost of capital.

Section - B

(Short-Answer-Type Questions)

Note - Section 'B' contains Eight (08) short-answer-type questions of Seven (07) marks each. Learners are required to answer any Five (05) questions only.

(5 × 7 = 35)

Briefly discuss any five (05) of the following :

1. Profit Maximization Vs. Wealth Maximization.

2. Determinants of Working Capital.

3. Motives of Holding Cash.

4. The Traditional Theory of Capital Structure.

5. The installed capacity of a factory is 600 units. Actual capacity used is 400 units. Selling price per unit is Rs. 10, variable cost is Rs. 6 per unit. Calculate the operating leverage in each of the following three situations:

2. What are the elements of capital structure? Briefly explain the factors that influence the planning of capital structure in practice.

3. What are the advantages of equity and debt financing for a company?

4. A company is cosidering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10,000 each and have a life of five years. The company's required rate of return is 10 percent and pays tax at a 35% rate. The projects will be depreciated on a straight line basis. The before taxes cash flows expected to be generated by the projects are as follows :

Project	Before Tax Cash Flows				
	1	2	3	4	5
A	4,000	4,000	4,000	4,000	4,000
B	6,000	3,000	2,000	5,000	5,000
Years	1	2	3	4	5
Present Value of Re 1 at the discount rate of 10%	.909	.826	.751	.683	.621

a) When fixed cost are Rs. 400.

b) When fixed costs are Rs. 1,000.

c) When fixed costs are Rs. 1,200.

6. X Company earns Rs. 5 per share, is capitalized at a rate of 10 percent and has rate of return on investment of 18 peercent. According to Walter's formula, what should be the price per share at 25% dividend payout ratio? Is this optimum payout ratio according to Walter?

7. Importance of Receivables Management.

8. A firm finances all its investments by 40% debt and 60% equity. The estimated required rate of return on equity is 20% after taxes and that of the debt is 8% after taxes. The firm is considering an investment proposal costing Rs. 40,000 with an expected return that will last forever. What amount (in rupees) must the proposal yield per year so that the market price of the share does not change?