(Please write your Exam Roll No.) *Exam Roll No. .....*

END TERM EXAMINATION

FOURTH SEMESTER [BBA] MAY-JUNE 2012

Paper Code: BBA(B&I)204 **Subject: Financial Management**

Time : 3 Hours **Maximum Marks :75**

Note: Attempt any five questions including Q.no.1 which is compulsory.

Q1 Write short notes on **any three** of the following:- **(3x5=15)**

(a) Book building
(b) Commercial paper
(c) Factors determining capital structure
(d) Decision tree analysis
(e) Over and under trading

Q2 (a) A 10-year savings annuity of Rs.2000 per year is beginning at the end of current year. The payment of retirement annuity is to begin 16years from now (the first payment is to be received at the end of year 16) and will continue to provide a 20-year payment annuity. If this plan is arranged through a savings bank that pays interest@7% per year on the deposited funds. What is the size of the yearly retirement annuity that will result? **(8)**

(b) "An optimal combination of decisions relating to investment, financing and dividends will maximize the value of the firm to its shareholders." Examine. **(7)**

Q3 XYZ Ltd has an average selling price of Rs.10 per unit. Its variable unit costs are Rs.7 and fixed costs amount to Rs.1,70,000. It finances all its assets by equity funds. It pays 50% tax on its income. ABC Ltd. is identical to XYZ Ltd, except in the pattern of financing. The latter finances its assets 50% by equity and 50% by debt, the interest on which amounts to Rs.20,000. Determine the degree of operating, financial and combined leverage at Rs.7,00,000 sales for both the firms and interpret the result. **(15)**

Q4 The following is the capital structure of ABC Ltd.

Source	Amount	Specific C/C
Equity share capital (2,00,000 shares of Rs.10each)	Rs. 20 lac	11%
Preference share capital (50,000 shares of Rs.10 each)	Rs. 5 lac	8%
Retained earnings	Rs.10 lac	11%
9% debentures of Rs. 1000each	Rs. 15 lac	4.5%

Presently, the Debentures are being traded at 94%, preference shares at par and the equity shares at Rs.13 per share. Find out the W ACC based on book value weights and market value weights. **(15)**

Q5 Examine the MM approach to capital traded structure as an extension of NOI approach. **(15)**

Q6 A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y the details of which are:-

	Year	Project X	Project Y
Cost	0	Rs. 70,000	Rs. 70,000
Cash Inflows	1	Rs. 10,000	Rs. 50,000
	2	Rs.20,000	Rs. 40,000
	3	Rs. 30,000	Rs. 20,000
	4	Rs. 45,000	Rs. 10,000
	5	Rs. 60,000	Rs. 10,000

Compute the Net Present Value at 10%, Profitable Index and Internal Rate of Return for the two projects. **(15)**

Q7 A textile company belongs to a risk-class for which the appropriate P/E ratio is10. It currently has 50,000 outstanding shares selling at Rs.100 each. The firm is contemplating the declaration of Rs.8 dividend at the end of the current fiscal year which has just started. Given the assumption of MM, answer the following questions. **(15)**

(a) What will the price of the share be at the end of the year?
   (i) If dividend is not declared and (ii) if it is declared?

(b) Assuming that the firm pays the dividend, has a net income (y) of Rs.5,00,000 and makes new investments of Rs.10,00,000 during the period, how many new shares must be issues?

(c) What will the value of the firm be-
   (i) If dividend is declared and (ii) if dividend is not declared?

Q8 ABC Co. is making sales of Rs.16,00,000 and its extends a credit of 90 days to its customers. However in order to overcome the financial difficulties, it is considering changing the credit policy. The proposed terms of credit and expected sales are given as under-

Policy	Terms	Sales (Rs.)
I	75 days	15,00,000
II	60 days	14,50,000
III	45 days	14,25,000
IV	30 days	13,50,000
V	15 days	13,00,000

The firm has a variable cost of 80% and a fixed cost Rs.1,00,000. The cost of capital is 15%. Evaluate different proposed policies and which policy should be adopted? (Year may be taken as 360 days) **(15)**