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

END TERM EXAMINATION

FIFTH SEMESTER [BBA/BBA(TTM)/BBA(MOM)] DECEMBER-2011

Paper Code: BBA/BBA(TTM)/BBA(MOM)309 ***Subject: Financial Management***

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

Note: Attempt any five questions including Q.no.1 which is compulsory. Logarithmic and other tables will be supplied on demand.

Q1 Answer the following:- **(5x3=15)**

(a) Objectives of financial management.
(b) Certainty equivalent coefficient.
(c) Risk adjusted discount rate
(d) Sensitivity Analsyis
(e) Global Depository Receipts

Q2 A company is considering one of the two mutually exclusive projects it should undertake. The company anticipates a cost of capital of 12% and the net after tax cash flows of the projects are given below:-

Year	Project A (Rs.)	Project B (Rs.)
0	55,00,000	58,00,000
1	38,00,000	40,00,000
2	18,00,000	33,00,000
3	19,00,000	44,00,000
4	11,00,000	50,00,000
5	75,00,000	1,00,000

Compute the NPV of each project and state which project would you recommend and why? **(15)**

Q3 (a) Why is dividend policy important for a company? Discuss the various determinants of dividend policy. **(7)**
(b) Critically evaluate the credit policy and credit control about receivables. **(8)**

Q4 (a) What do you mean by capital structure? Explain the factors influencing capital structure. **(7)**
(b) ABC Ltd. Company's balance sheet is given below:-

Liabilities	Rs.	Assets	Rs.
Equity capital (Rs. 10 per share)	60,000	Net fixed assets	1,50,000
10% long-term debt	80,000	Current assets	50,000
Retained earnings	20,000		
Current liabilities	40,000		
	2,00,000		2,00,000

The company's total assets turnover ratio is 4 times. Fixed operating costs are Rs.1,00,000 and variable operating costs rati is 40%. Income tax rate is 40%. Compute operating, financial and combined leverage. **(8)**

Q5 (a) Explain commercial paper and certificate of deposit. **(8)**
(b) ABC Ltd. has the following capital structure:

Particulars	Book value (Rs.)	Market Value(Rs.)
Equity capital (25000 shares of Rs.10)	2,50,000	4,50,000
13% preference capital (5000 shares of Rs.10)	50,000	45,000
Reserves & surplus	1,50,000	--------
14% debentures (15000 debentures of Rs.10)	1,50,000	1,45,000

P.T.O.

Dividend per share is Rs. 2.40 and it is expected to grow at a rate of 15% forever. Preference shares and debentures are redeemable at par after 5 years and 6 years respectively. Tax rate is 30%. Compute the weighted average cost of capital taking market value as weights. **(7)**

Q6 (a) Write short note on decision tree analysis. **(6)**

(b) Determine the market price of equity shares of the company from the following information as per Walter's Model:

Earnings of the company	Rs. 5,00,000
Dividend paid	3,00,000
Number of shares outstanding	1,00,000
Price-earning ratio	8
Rate of return on investment	15%

Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend payout ratio? **(9)**

Q7 (a) Write a short note on management of inventories. **(6)**

(b) ABC Ltd. has a capital of Rs.10,00,000 in equity shares of Rs.10 each. The shares are currently quoted at par. The company proposes to declare a dividend of Rs.1 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs is 12%. What will be the market price of the shares at the end of current year, if-

(i) A dividend is not declared?

(ii) A dividend is declared?

(iii) Assuming that the company pays a dividend and has earned net profits of Rs. 5,00,000 and wants to make new investments of Rs.10,00,000 during the period, how many new shares should be issued? Use the MM model. **(9)**

Q8 (a) Explain and distinguish Relevance and Irrelevance Dividend theories. **(7)**

(b) The following information has been extracted from the records of a company:- **(8)**

Product cost sheet	Rs.
Raw materials	45
Direct labour	20
Overheads	40
Total cost	105
Profit	15
Selling price	120

(i) Raw materials are in stock on an average for two months.

(ii) Materials are in process on an average for one month.

(iii) Degree of completion is 50% for all elements of cost.

(iv) Time lag in payment of wages and overheads is one month.

(v) Time lag in receipt of payment from debtors is two months.

(vi) Credit allowed by suppliers is one month.

(vii) 20% of output is sold for cash.

(viii) The company wants to keep minimum cash of Rs.1,00,000. The company is expected to produce 1,44,000 units in the next year. Prepare a statement of working capital requirement of the company.