2020
B.B.A.
[HONOURS]
(Financial Management)
Paper : BBA-2.5

Full Marks : 80 Time : 4 Hours

The figures in the right-hand margin indicate marks.
Candidates are required to give their answers in their own words as far as practicable.

Answer **Q.No.1** and any **five** from the rest.

1. Answer any **ten** questions : 2×10=20

   a) What do you mean by Financial Management?

   b) What do you mean by Time Value of Money?

   c) What do you mean by Venture Capital Financing?

   d) What do you understand by financial markets?

   e) What is meant by trading on equity?

   f) What is Retained Earnings?

[Turn over]

   g) What do you mean by Debt financing?

   h) What is meant by Cumulative Preference Share?

   i) What do you mean by Cost of Capital?

   j) What do you mean by weighted average cost of capital?

   k) Distinguish between gross working capital and net working capital.

   l) Give two examples of Current Assets.

   m) What is 'Debt-Equity Ratio'?

   n) What is Cash Flow Statement?

   o) What does negative working capital signify?

2. a) Explain the various functions of a financial manager.

   b) Comment on 'Profit maximization v/s Wealth maximization'. 6+6=12

3. The Board of directors of Samson Ltd., has called for a statement showing the working capital needed to finance a level of activity of 2,34,000 units of production for the next year. The estimated cost structure for the company's product, for the said

activity level, is given below:

	Cost per unit (Rs.)
Raw Materials	25
Direct Labour	10
Overhead	15
Total Cost	50
Profit	10
Selling Price	60

The following additional uniformation is available:

a) Raw materials are in stock on an average for 2 months and in working process on an average for 1 month.

b) Finished goods remain in warehouse on an average for one and half months.

c) Credit allowed to debtors is 2 months.

d) Suppliers of materials extend one and half months' credit.

e) Lag in payment of wages is ½ month.

f) Lag in payment of overhead is 1 month.

g) The production pattern is assumed to be even during the year. 12

4. a) State the compounding and discounting techniques of time value of money.

b) i) Mr. A invested Rs.10,000 at an interest of 12% p.a. for 3 years. Compute future value of investments assuming interest is compounded quarterly.

Given, FVIF(3,12)=1.4262

ii) Mr. B is offered either to receive Rs.5,000 one year from now or Rs.7,000 five years from now. Which one Mr. B will accept and why if discount rate is 10%? Given, present value of Re. 1 at 10% are .909 and .621 for 1st and 5th year respectively.

5+3+4=12

5. From the following Balance Sheet of ABC Ltd. make out: 12

(i) Statement of changes in the Working Capital and (ii) Fund-flow Statement.

Balance Sheet

Liabilities	31.12.98	31.12.99	Assets	31.12.98	31.12.99
Equity Share Capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
8% Redeemable Preference Share Capital	1,50,000	1,00,000	Land & Buildings	2,00,000	1,70,000
			Plant	80,000	2,00,000
General Reserve	40,000	70,000	Debtors	1,60,000	2,00,000
Profit & Loss A/c	30,000	48,000	Stock	77,000	1,09,000
Proposed Dividend	42,000	50,000	Bills Receivable	20,000	30,000
Creditors	55,000	83,000	Cash in Hand	15,000	10,000
Bills Payable	20,000	16,000	Cash at Bank	10,000	8,000
Provision for taxation	40,000	50,000			
	6,77,000	**8,17,000**		**6,77,000**	**8,17,000**

Additional Information:

a) Depreciations of Rs.10,000 and Rs.20,000 were charged on Plant and Land and Buildings respectively in 1999.

b) An interim dividend of Rs.20,000 was paid in 1999.

c) Income tax of Rs. 35,000 was paid during the year 1999.

6. Discuss the merits and demerits of two major types of long-term sources of capital.

6+6=12

7. a) Distinguish between Cash Book and Cash Flow Statement.

b) State the significance of Capital Budgeting decision. 4+8=12

8. From the following information supplied by ABC Co. Ltd. Prepare a Balance Sheet as on 31st December, 2016 :

Current Ratio 1.6

Liquid Ratio 1.15

Gross Profit Margin 25%

Stock Turnover Ratio 6 times

Capital Gearing Ratio 3.8

[(Equity Share Capital + Reserves)/Pref. Share Capital]

Fixed Assets to Net Worth 0.75

Reserves to Net Worth 1/6

Fixed Assets Turnover Ratio 1.5

Debtors velocity 3 months

Sales for the year Rs. 3,60,000. 12

9. Initial investment in two projects A and B are Rs.50,000 and Rs.60,000 respectively. The entire

intial investments in both the cases are in fixed assets. Straight line depreciation in allowed for tax purposes. The cost of capital is 10% and tax rate is 40%. EBDIT for two projects for their 4-year lives are given below:

	Year 1 (Rs.)	Year 2 (Rs.)	Year 3 (Rs.)	Year 4 (Rs.)
EBDIT from Project A	18,500	27,000	24,000	15,000
EBDIT from Project B	25,000	25,000	30,000	20,000

Compute the following in respect of each project and hence, evaluate the projects.

a) ARR

b) Payback Period

c) Net Present Value (NPV)

Year	1	2	3	4
PV factors at 10% rate	.909	.826	.751	.683

4+4+4=12

10. a) Mr. Das is interested to purchase the equity shares of Moonlight Ltd. The company had paid a dividend of Rs.5 per share in the previous year. The expected rate of growth in dividend would be 8%. The required rate of return on the shares of this company is 12%.

What will be the maximum price you will recommend to Mr. Das to pay for an equity share of the company?

b) Y Ltd. has issued 12% redeemable preference shares of face value Rs.100 for Rs.10 lakhs. The shares are expected to be sold at 5% discount; it will also involve floatation cost of Rs.5 per share. The shares are redeemable at a premium of 5% after 10 years.

Calculate the cost of capital of redeemable preference share, if the rate of tax is 50%. Ignore dividend tax. 6+6=12