WEST BENGAL STATE UNIVERSITY

BBA Honours 3rd Semester Examination, 2021-22

BBAACOR07T-BBA (CC7)

FINANCIAL MANAGEMENT

Time Allotted: 2 Hours | Full Marks: 50

The figures in the margin indicate full marks.
Candidates should answer in their own words and adhere to the word limit as practicable.
All symbols are of usual significance.

GROUP-A

Answer any *two* questions from the following $10\times2 = 20$

1. (a) Discuss the traditional objective of financial management. 5+5

   (b) Should this be regarded as the primary objective of financial management?

2. (a) A company issued 1,000, 12% debentures of Rs. 100 each at a discount of 5% to be redeemed after 10 years at par. The floatation cost is 5% on the issue price. The corporate tax rate 30%. Compute the cost of debentures. 6+4

   (b) Write a short note on 'Cost of Retained Earnings'.

3. What do you understand by Dividend Policy? Explain the factors which influence the dividend policy of a firm. 2+8

4. The financial data of ABC Ltd. is given below: 10

   — Degree of operating leverage 4

   — Degree of financial leverage 1.5

   — P/V ratio: 40%

   — Interest paid Rs. 1,00,000

   Prepare the income statement of the company.

5. (a) State the advantages of payback period. 3+7

   (b) Compute payback period of a project from the following available details:

Year	0	1	2	3	4	5
Book value of fixed assets (Rs. in lakhs)	500	450	400	350	300	250
Profit after tax (Rs. in lakhs)	—	80	8	96	104	112

6. Write short notes on (answer any ***two***): 5×2
   (i) Credit Period
   (ii) Working Capital Cycle
   (iii) Factoring

GROUP-B

Answer any *two* questions from the following 15×2 = 30

7. (a) Discuss the various functions of financial management. 10+5
   (b) A person is required to pay 4 equal annual payments of Rs. 4,000 each in his Deposit Account that pays 6% interest per year. Find out the future value of annuity at the end of fourth year.

8. Determine the working capital requirement from the following: 15
   (i) Expected annual sales: 7,800 units
   (ii) Analysis of Selling price:

	Rs.
Raw materials	8 per unit
Labour	4 per unit
Expenses	4 per unit
Profit	4 per unit
Selling price	**20 per unit**

   (iii) Raw materials in store: 4 weeks
   (iv) Processing time: 2 weeks
   (v) Finished products in store: 2 weeks
   (vi) Credit allowed to debtors: 4 weeks
   (vii) Credit allowed by creditors: 2 weeks
   (viii) Lag in payment of wages and expenses: 2 weeks
   (ix) Production is carried on evenly during the year and wages and expenses accrue in the same way.

9. (a) Sunshine Ltd., has sales of Rs. 5,00,000, variable cost of Rs. 3,00,000 and fixed operating cost of Rs. 50,000. Its capital structure consists of 10% Debentures of Rs. 3,00,000 and Equity share capital of Rs.3,00,000. (Assume that face value of each equity share is of Rs. 10 each and tax rate is 30%) 10+(2+3)

   Calculate DOL; DFL; DCL and EPS.

   (b) How do you measure financial leverage? Explain the significance of this Leverage.

10. A company wants to replace its existing machine by Machine A, which is of similar kind or by Machine B which is more expensive and of higher capacity to meet increasing demand. The available cash flows from the two machines are as follows: 15

Machine	**Immediate Cash Flows (Rs. in lakhs)**	**Cash Inflows (Rs. in lakhs) at the end of**				
		1st year	**2nd year**	**3rd year**	**4th year**	**5th year**
A	25	–	5	20	14	14
B	40	10	14	16	17	15

The company's cost of capital is 10%. The finance manager tries to appraise the machines by calculating the following:

(i) Net Present Value

(ii) Profitability Index

Comment on these calculations and guide the manager to select the investment.

Note: Present value of Re. 1 at 10% discount rate are as follows:

Year	0	1	2	3	4	5
P.V. Factor	1.00	0.91	0.83	0.75	0.68	0.62

11.(a) State the assumptions of Gordon's model on dividend policy. 5+10

(b) Compute the market price of shares using Walter Model under the following cases:

CASE I: Retention Ratio: 100%

CASE II: Retention ratio: 30%

CASE III: Retention ratio: Zero

— Internal rate of return: 30%

— P/E ratio: 5

— Earnings per share: Rs. 5

The company has 2,00,000 equity shares of Rs. 10 each.

12.(a) The following is the capital structure of Nandan Co. Ltd. as on 31.03.2021. 9+6

	Rs.
Equity shares (20,000 shares of Rs. 100 each)	20,00,000
Reserve and Surplus	1,00,000
12% Preference shares (of Rs. 100 each)	4,00,000
10% Debentures (of Rs. 100 each)	5,00,000
Total	**30,00,000**

The market price of company's shares is Rs. 110 and it is expected that a dividend of Rs. 12 per share would be declared after one year. The dividend growth rate is 5%. If the corporate rate is 30%, compute the weighted average cost of capital using market value as weights.

(b) State any three important factors for determining optimum capital structure.

N.B. : *Students have to complete submission of their Answer Scripts through E-mail / Whatsapp to their own respective colleges on the same day / date of examination within 1 hour after end of exam. University / College authorities will not be held responsible for wrong submission (at in proper address). Students are strongly advised not to submit multiple copies of the same answer script.*

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