Total No. of printed pages = 4

BBA 181302

Roll No. of candidate

21/21 **2021**

B.B.A. 3rd Semester End-Term Examination

Business Administration

FINANCIAL MANAGEMENT

(New Regulation)

Full Marks – 70 Time – Three hours

The figures in the margin indicate full marks for the questions.

Answer question No. 1 and any *four* from the rest.

1. Choose the correct answer : (10 × 1 = 10)

(i) Capital Budgeting decisions are also known as

(a) Investment decision (b) Financing decision

(c) Dividend decision (d) Working Capital decision

(ii) What is the basic objective/goal of the finance function?

(a) Profit maximisation

(b) Shareholders' wealth maximisation

(c) Both

(d) None of the above

(iii) ———— security is known as variable income security.

(a) Debentures (b) Preference shares

(c) Equity shares (d) None of the above

(iv) Current ratio of a firm is 1; its net working capital will be ————.

(a) Positive (b) Neutral/zero

(c) Negative (d) None of the above

(v) Which of the following methods of project evaluation determine the number of years required to recover initial investment?

(a) Net Present Value (b) Internal Rate of Return

(c) Benefit-cost Ratio (d) Payback period

[Turn over

(vi) The mix of debt and equity in a firm is referred to as the firm's ——————.

(a) Primary capital (b) Capital composition

(c) Cost of capital (d) Capital structure

(vii) Net working capital refers to ——————.

(a) Total assets minus fixed assets

(b) Current assets minus current liabilities

(c) Current assets minus inventories

(d) Current assets

(viii) The Cash outflows are the cost of the projects and are represented by ——————.

(a) Negative number (b) Positive number

(c) Hurdle rate (d) None of the above

(ix) Which of the following is NOT a current asset?

(a) Building (b) Inventory

(c) Debtors (d) Cash

(x) Equity shares which are issued free of cost are ——————.

(a) Preference shares (b) Rights share

(c) Bonus shares (d) None of the above

2. (a) 'A Finance manager has to make long-term as well as short-term decisions.' Do you agree? Elaborate the types of finance decisions a manager has to make. (7)

(b) Discuss the sources of long-term funds for a business organisation. (8)

3. (a) Why do you think individuals prefer present value to future value of money? (5)

(b) An investor was offered the following two financial proposals :

Proposal I : Invest a lumpsum amount of Rs. 5,000 for a period of 5 years at an interest rate of 10 per cent per annum

Proposal II : Invest an amount Rs. 1,000 every year for a period of 5 years. The interest rate, however, is 10 per cent per annum.

You are required to advise the investor, which one of these two proposals should he accept. (5)

(c) Mr. Kumar is expecting Rs. 2000 at the end of every year during the first 3 years and Rs. 5000 and Rs. 10,000 at the end of fourth year and fifth year respectively. If Mr. Kumar's required rate of return is 10 per cent per annum, calculate the present value of this stream of cash flows. (5)

4. (a) What are the different categories of financial ratios? (3)

(b) Assume that a firm has owners' equity of Rs. 1,00,000. The ratios for the firm are : (12)

Current Debt to Total Debt	0.40
Total Debt to Owners' Equity	0.60
Fixed Assets to Owners' Equity	0.60
Total Assets Turnover	2 times
Inventory Turnover	8 times

Complete the following Balance Sheet based on the above information :

Balance Sheet as on March 31, 2021

Owners' Equity and Liabilities	Amount (in Rs.)	Assets	Amount (in Rs.)
Owners' Equity	....	Fixed Assets	....
Total Debt	....	Current Assets	
• Long-term Debt	....	• Inventory	....
• Current Debt	....	• Cash	....
Total		Total	

5. (a) Discuss briefly why capital budgeting decisions are crucial for a firm? (3)

(b) The estimated cash flows of the following three projects – P, Q and R are given below – (12)

Year	Project P	Project Q	Project R
0	(10,000)	(10,000)	(10,000)
1	10,000	7,500	2,000
2	7,000	7,500	4,000
3	5,000	10,000	12,000
4	1,000	2,000	5,000
5	1,000	1,000	1,000

Calculate (i) NPV (ii) Profitability Index and (iii) Payback period and rank the projects on the basis of the above-mentioned evaluation criteria. The overall cost of capital for the firm is 10 per cent.

6. (a) Explain the concept of Working Capital? Why does an organisation need working capital? (2 + 3 = 5)

   (b) What is dividend payout ratio? Discuss the different ways how a company can distribute its profit among its equity shareholders? Also state which method of dividend payment is most common in India. (1 + 3 + 1 = 5)

   (c) Elaborate the concept of stock split. How does it differ from bonus shares? (2 + 3 = 5)

7. Write short notes on (any *three*) : (3 × 5 = 15)

   (a) Profit maximisation versus wealth maximization

   (b) Commercial Paper

   (c) Cost of capital for a firm

   (d) Annual and Interim dividends

   (e) Temporary and permanent working capital