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BBA 181302

Roll No. of candidate

2019

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

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. Answer the following : (Fill up the blanks) (10 × 1 = 10)

   (i) The basic objective of the finance function is ________.

   (ii) Owners' contribution to a firm is also known as ________.

   (iii) ________ is often considered to be a hybrid security since it has many features of both ordinary shares and debentures.

   (iv) ________ ratios measure the firm's ability to meet current obligations.

   (v) ________ determines the number of years required to recover initial investment outlay.

   (vi) Convertible debentures can be converted into ________ after a specific time period as per the laid down terms and conditions of the fund raiser's offer document.

[Turn over

(vii) Interest paid on __________ capital is a tax deductible expense.

(viii) The discount rate that makes NPV equal to zero is termed as __________.

(ix) An issue of __________ is the distribution of shares free of cost to the existing shareholders.

(x) In periods of prosperity, companies pay extra dividend and this is termed as __________.

2. (a) Briefly explain the four finance decisions of organisations. (8)

(b) Discuss the sources of long-term fluids for business organisations. (7)

3. (a) Why do individuals have time preference for money? (5)

(b) You make a fixed deposit of Rs, 1000 in Best Bank for five years. The annual interest rate is 12 per cent. How much total amount will you receive if the interest is compounded

(i) annually and

(ii) half-yearly? (5)

(c) Consider that an investor has an opportunity to receiving Rs.1,000, Rs.2,000, Rs.800, Rs.5,000 and Rs.1,000 respectively at the end of each year over a period of 5 years. If the investor's rate of return is 10 per cent per annum,

Calculate the present value of this stream of cash flows. (5)

4. (a) How does the use of ratios help in financial analysis? (3)

(b) Using the following data, complete the Balance Sheet given below (12)

Gross Profit	Rs. 54,000
Shareholders' equity	Rs. 6,00,000
Gross profit margin	20%
Credit sales to total sales	80%
Total assets turnover	0.3 times
Inventory turnover	4 times
Average collection period (a 360-day year)	20 days
Current ratio	1.8
Long-term debt to equity	40%

Balance Sheet as on March 31, 2019

Owners' equity and Liabilities	Amount (in Rs)	Assets	Amount (in Rs)
Shareholders' equity	———	Fixed Assets	———
Long-term debt	———	Current Assets	———
Creditors	———	• Inventory	———
		• Debtors	———
		• Cash	———
Total	———	Total	———

5. (a) A company decides to sell a new issue of 7 years 15 per cent bonds of Rs.1,000 face value at par. Calculate the post tax cost of debt if the applicable tax rate for the company is 50 per cent. (5)

(b) A company has equity beta of 1.45. The risk-free rate is 9 per cent and the market risk premium is 10 per cent. Determine the cost of the company's equity. (5)

(c) Pioneer Company Ltd. intends to set up a new factory with an equal mix of debt and equity to finance a new project. If the cost of debt is 15 per cent, the cost of equity is 18 per cent and the applicable tax rate is 50 per cent, calculate the overall cost of capital of the Company. (5)

6. (a) What do you mean by working capital? Discuss the determinants of working capital requirement of an organisation. (2+6=8)

(b) What do you mean by stock split? Why is it used? How does it differ from a bonus share? (3+2+2=7)

7. Company XYZ has received three project proposals namely — X, Y and Z.

The cash flows associated with these three projects are as follows

Year	Net Cash Flow		
	X	Y	Z
0	(2,000)	(2,000)	(2,000)
1	1,500	500	600
2	600	1,200	600
3	500	1,000	1,800

The Cost of Capital for the XYZ is 10 per cent. Calculate

(a) NPV,

(b) IRR,

(c) Profitability Index and

(d) Payback period of the three projects and rank the projects on the basis of the above mention criteria. (15)