

2316

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Class – BBA IV<sup>th</sup> Sem.

Subject – Financial Management

Time Allowed : 3 Hours

Maximum Marks : 50

**PART-A**

Attempt any 10 out of 12 questions. Each question carries 1 mark.

1. (i) Arbitrage Process
- (ii) Net Operating Income Approach of Capital Structure
- (iii) Participating Preference share
- (iv) Present Value Factor
- (v) Capitalization
- (vi) Operating Leverage
- (vii) Trading on Equity
- (viii) Stock Dividend
- (ix) Permanent Working Capital
- (x) Marginal Cost of Capital
- (xi) Internal Rate of Return
- (xii) Cost of Retained Earnings.

**PART-B**

Attempt any 2 out of 4 questions. Each question carries 10 marks.

2. Discuss in detail any two theories of relevance of Capital Structure. Each must be supported with numeric example.

3. "Scope of Financial Management has broadened substantially with passage of time." Justify this statement.
4. Aries Ltd. wishes to raise additional finance of ₹ 10 lakh for meeting its investment plans. It has ₹ 2,10,000 in the form of retained earnings available for investment purposes. The following are further details:

1	Debt-Equity Mix	30 : 70
2	Cost of Debt	
	upto 1,80,000	10% (Before tax)
	Beyond 1,80,000	12% (Before tax)
3	Earnings per share	₹ 4
4	Dividend payout ratio	50% of earnings
5	Expected growth rate in dividend	10%
6	Current Market price per share	₹ 44
7	Tax rate	35%

You are required

- (a) To determine the pattern for raising additional finance, assuming the firm intends to maintain existing debt/equity mix.
- (b) To determine the post tax average cost of additional debt.
- (c) To determine the cost of retained earnings and cost of equity.

- (d) Compute the overall weighted average after tax cost of additional finance.
5. (i) Differentiate between Profit maximization & Wealth maximization.
- (ii) Explain long term sources of finance.

### SECTION-C

**Attempt any 2 out of 4 questions. Each question carries 10 marks.**

6. What are the various types of dividend? Discuss in brief the theories of irrelevance regarding dividend.
7. 'Role of Working Capital for an Industry is akin to the role of blood in human body'. Give your comments. Also explain the various approaches to working Capital Finance.
8. Financial Leverage whereas on the one hand may increase the returns for equity shareholders, on the other hand it enhances the risk'. Explain this statement with the help of numerical examples.
9. A company is considering the following investment projects :

**Cash Flows (₹)**

Projects	$C_0$	$C_1$	$C_2$	$C_3$
A	-10,000	10,000	-	-
B	-10,000	7500	7500	-
C	-10,000	2000	4000	12000
D	-10,000	10,000	3000	3000

(a) Rank the project according to each of the following methods :

- (i) Pay back Period.
- (ii) Accounting rate of return.
- (iii) Net Present Value of 10% discount rate.

You may use the following table.

Year	1	2	3	4
P.V. factor				
at 10%	.909	.826	.751	.683

- (b) Assuming projects are independent, which one should be accepted?
- (c) If the projects are mutually exclusive which project is the best?

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