

Exam. Code : 105404

Subject Code : 1401

Bachelor in Business Administration 4th Semester
(Batch 2020-23)

FINANCIAL MANAGEMENT

Paper—BBA-403

Time Allowed—3 Hours] [Maximum Marks—50

Note :—Attempt **FIVE** questions in all, selecting at least **ONE** question from each section. The **fifth** question may be attempted from any section. All questions carry equal marks.

SECTION—A

1. What should be the goal of the firm and why ?
2. Define Capital Structure. Discuss in detail the MM Approach of capital structure.

SECTION—B

3. Describe the differences between Equity Shares and Preference Shares.
4. A firm has the following Capital Structure :

Source of Capital	Book Value Rs.	Market Value Rs.
Equity Shares @ Rs. 100 each	8,00,000	16,00,000
9% Cumulative Preference Shares @ Rs. 100 each	2,00,000	2,40,000
11% Debentures	6,00,000	6,60,000
Retained Earnings	4,00,000	---
	20,00,000	25,00,000

The current market price of the company's equity share is Rs. 200. For the last year the company had paid equity dividend at 25% and its dividend is likely to grow 5% every year. The corporate tax rate is 30% and shareholders personal income tax rate is 20%.

You are required to calculate :

- (i) Cost of Capital for each source of capital.
- (ii) Weighted average cost of capital on the basis of book value weights.
- (iii) Weighted average cost of capital on the basis of market value weights.

SECTION—C

5. From the following information calculate the Net Present Value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

	Project X	Project Y
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 years	5 years
Scrap Value	Rs. 1,000	Rs. 2,000

The cash flows are as follows :

	Year 1	Year 2	Year 3
Project X	Rs. 5,000	Rs. 10,000	Rs. 10,000
Project Y	Rs. 20,000	Rs. 10,000	Rs. 5,000
	Year 4	Year 5	
Project X	Rs. 3,000	Rs. 2,000	
Project Y	Rs. 3,000	Rs. 2,000	

6. What are dividends ? Give your justification with respect to the relevance of dividend decisions in an organization.

SECTION—D

7. Distinguish between operating leverage and financial leverage. What is the impact of financial leverage on the Earnings per share of the company ?
8. Explain the significance and types of Working Capital in an organization.