

**B.B.A. SEM – III (2015 CBCS COURSE) : WINTER - 2017**

**SUBJECT : BASICS OF FINANCIAL MANAGEMENT**

Day : **Wednesday**

Time : **02.00 PM TO 05.00 PM**

Date : **15/11/2017**

**W-2017-1526**

Max. Marks : 100

**N.B.:**

- 1) Attempt **ANY FOUR** questions from Section – I and **ANY TWO** questions from Section – II.
- 2) Answers to both the sections should be written in **SEPARATE** answer books.
- 3) Use of non-programmable **CALCULATOR** is allowed.
- 4) Figures to the right indicate **FULL** marks.

**SECTION – I**

- Q.1** Explain Profit Maximization vs. Wealth Maximization as Objectives of Financial Management. [15]
- Q.2** Write a note on following sources of long term finance: [15]  
a) Equity Shares  
b) Debentures
- Q.3** Which factors are considered to frame optimum Capital Structure of a company? [15]
- Q.4** Write a note on 'Dividend Policy' of a company. [15]
- Q.5** Write short notes on **ANY TWO** of the following: [15]  
a) Operating Cycle  
b) Internal Rate of Return  
c) Bonus Shares

**SECTION – II**

- Q.6** Nihar Ltd., whose cost of capital is 10% is considering two mutually exclusive proposals, P and Q, the details of which are as follows: [20]

Particulars	Proposal P (₹)	Proposal Q (₹)
Initial Investments	25,00,000	25,00,000
Projected Cash Inflows		
1 <sup>st</sup> year	2,00,000	10,50,000
2 <sup>nd</sup> year	3,50,000	11,00,000
3 <sup>rd</sup> year	6,50,000	11,00,000
4 <sup>th</sup> year	9,50,000	10,75,000
5 <sup>th</sup> year	13,50,000	9,25,000

You are required to Calculate for proposal P and Q the following and give the decision in which proposal the company should invest.

- a) Pay Back Period
- b) Net present value @ 10% rate of discount
- c) Profitability Index

The discounting factors at 10% are: .909, .826, .751, .683, .621.

**P.T.O.**

- Q.7** Ram Ltd., sells its products on a gross profit of 18% on sales. The following information is extracted from its annual accounts for the current year ended on 31<sup>st</sup> March, 2017. [20]

	₹
Sales at 3 months credit	70,00,000
Raw materials	11,00,000
Wages paid-average time lag 15 days	10,60,000
Manufacturing expenses paid-one month in arrears	20,00,000
Administrative expenses paid-one month in arrears	7,80,000
Sales promotion expenses payable half year in advance	3,00,000

The company enjoys one month's credit from the suppliers of raw materials and maintains a 2 months stock of raw materials and one and half month's stock of finished goods. The cash balance is maintained at ₹ 1,80,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of the company.

- Q.8** Assuming that a company pays income-tax @ 30%, calculate the after-tax cost of capital in the following cases: [20]
- a) A 9.5% preference share sold at par redeemable after 5 years.
  - b) A perpetual bond with 8.5% rate of interest.
  - c) A ten years 10% ₹ 1,000 debenture sold at ₹ 950 less 4% underwriting commission.
  - d) A preference shares sold at ₹ 100 with 9% dividend and redemption price of ₹ 105 and redemption period of 6 years.
  - e) An ordinary share selling at a market price of ₹ 130 and current dividend of ₹ 11 per share which is expected to grow at 6%.

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