

**2022**

**BUSINESS ADMINISTRATION — HONOURS**

**Paper : BBA-A403-C-10**

**(Financial Management)**

**Full Marks : 80**

*The figures in the margin indicate full marks.*

*Candidates are required to give their answers in their own words  
as far as practicable.*

**Group - A**

1. Answer **any five** questions :

2×5

- (a) Write notes on 'Wealth Maximization'.
- (b) What is Time Value of Money?
- (c) What is Systematic Risk?
- (d) What do you mean by Net Present Value?
- (e) What is Internal Rate of Return?
- (f) What is Weighted Average Cost of Capital?
- (g) What is Indifference Point?
- (h) What is EOQ?

**Group - B**

2. Answer **any five** questions :

4×5

- (a) Explain Net Operating Income (NOI) Approach of Capital Structure Theories.
- (b) Define 'Maximum Level', 'Minimum Level', 'Reorder Level' and 'Safety Stock'.
- (c) What do you mean by 'Explicit Cost' and 'Implicit Cost'?
- (d) Write short notes on 'Cash Management Technique'.
- (e) Given — Total Variable Cost = 75% of Sales, DOL = 4, DFL = 2 and Interest Expenses as ₹ 200.00 per period. Find (i) Total Sales (ii) Total Variable Cost (iii) Total Fixed Cost (iv) EBT and (v) Profit after Tax assuming Tax Rate to be 50%.
- (f) Briefly discuss EBIT-EPS analysis.
- (g) Texco Ltd. has Capital of 1,00,000 Equity Shares of ₹ 10 each. Its price earning ratio is 10 and Earning available to Equity shareholders is ₹ 6,00,000. The Earnings are expected to grow @ 10% p.a. You are required to compute the cost of Equity under Earning Growth Model.

**Please Turn Over**

- (h) A company has 1,00,000 Equity Shares of ₹ 10 each. The company expects its earnings at ₹ 6,00,000 during the next Financial Year and its Cost of Capital is 10%. Using Walter's Model, what dividend policy would you recommend when the rate of return on investment is estimated at 12%? What will be the price of each Equity Share if your recommendation is accepted?

**Group - C**

Answer *any five* questions.

10×5

3. From the following information of Trishna Ltd., you are required to determine the Working Capital requirement :
- (i) Annual Expected Sales ₹ 2,08,000
  - (ii) Analysis of Sales :

Materials	60%
Expenses	15%
Profit	25%
Total	100%
  - (iii) Credit allowed to Debtors – 6 weeks, Credit allowed by Creditors – 6 weeks, Raw Materials in Stores – 4 weeks, Processing Period – 2 months, Finished Goods in Stores – 3 months
  - (iv) Bank Overdraft – ₹ 20,000
  - (v) Cash-in-hand for Contingency ₹ 10,000
  - (vi) Bills Payable are estimated ₹ 8,000
  - (vii) Production is carried on evenly during the year and expenses accrue similarly.
4. The following data are available in respect of a material 'M' used in the Production Process of Sunlight Ltd. :
- |                                |              |
|--------------------------------|--------------|
| Cost per unit of the material: | ₹ 20         |
| Weekly Consumption :           | 450 units    |
| Ordering Cost per Order:       | ₹ 1,170      |
| Stock Holding Cost per month : | 1.5% on cost |
- You are required to determine :
- (a) Economic Order Quantity,
  - (b) Optimum Numbers of Orders per Year,
  - (c) Time lag between two Consecutive Orders,
  - (d) Total Ordering Cost,
  - (e) Total carrying Cost.
5. Bangabashi Ltd. belongs to a risk-class for which the appropriate capitalization rate is 10%. It currently has outstanding 2000 Equity Shares of ₹ 100 each. The firm is contemplating the declaration of Dividend of ₹ 8 per share at the end of the Current Financial Year. It expects to have a Net Earning of ₹ 20,000 and has a proposal for making new investment of ₹ 24,000. Show that under the M-M approach assumption, the payment of dividend does not affect the value of the firm.

6. What factors would you consider while planning the Capital Structure of your Company?
7. Alpha Company Ltd. wants to undertake a project which requires a plant costing ₹ 3,00,000. The effective life of the plant is 5 years and its Scrap Value will be 10% after 5 years. The following Cash Inflows will be occurred from the project in the next 5 years.

Year	Cash inflows (₹)
1	60,000
2	90,000
3	1,08,000
4	1,20,000
5	1,02,000

If the cost of capital is 15%, calculate the NPV of the project.

Given : The present value factors at a discount @ 15% rate are :

Year	1	2	3	4	5
PVF at 15%	0.8696	0.7561	0.6575	0.5718	0.4972

8. You are given the following particulars with respect to a firm for the year just ended :

Sources	Amount (₹ in lakh)	After tax cost of capital (%)
Equity Share Capital	200	15
Retained Earnings	100	?
Long Term Debt	200	?
<b>Total</b>	<b>500</b>	

The Corporate Tax rate is 40% while the Average Cost of Capital of the firm is 11.88%. Determine the cost of Retained Earnings ( $K_p$ ) and the Cost of Debt ( $K_d$ ) (after tax and before tax). Make assumptions wherever necessary.

9. MMC company currently has an Equity Share Capital of ₹ 40 lakhs, consisting of 40,000 Equity Shares of ₹ 100 each. The management is planning to raise an additional, ₹ 30 lakhs to finance a major programme of expansion through one of four possible financing plans. The options are
- Entirely through Equity issues.
  - ₹ 15 lakhs in Equity Shares of ₹ 100 each and the balance in 8% Debentures.
  - ₹ 10 lakhs in Equity Shares of ₹ 100 each and the balance through Long Term Borrowings at 9% interest per annum.
  - ₹ 15 lakhs in Equity Shares of ₹ 100 each and the balance through Preference Shares with 5% dividend.

The Company's earnings before Interest & Taxes (EBIT) has been expected to be ₹ 15 lakhs. Assuming a Corporate Tax rate of 50%, you are required to determine the earning per share and comment on the Financial Leverage that will be authorized under each of the above schemes of Financing.

**Please Turn Over**

10. While considering the most desirable capital structure of a Company, the following estimates of the Cost of Debt and Equity Capital (after tax) have been made at various levels of the Debt Equity Mix :

<b>Debt as % of Total Capital Employed</b>	<b>Cost of Debt (%)</b>	<b>Cost of Equity (%)</b>
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to determine the Optimal Debt Equity Mix for the company by calculating the composite cost of Capital.

---