

END TERM EXAMINATION

FOURTH SEMESTER [BBA] JULY 2023

Paper Code: BBA-204

Subject: Financial Management

(Batch 2021 Onwards)

Time: 3 Hours

Maximum Marks: 75

Note: Attempt any five questions. Present value tables are allowed.

- Q1 Answer any three: (15)
- (a) What do you understand by EVA? How it can be enhanced?
 - (b) Features of capital budgeting decisions.
 - (c) Difference between business risk and financial risk of a firm.
 - (d) Basic and Specific assumptions of Net Income approach.
 - (e) Why is the marginal cost of capital referred to as the weighted average cost of new capital?

- Q2 PSK Ltd. is considering to replace one of its existing machine at a cost of Rs.4,00,000 the existing machine can be sold at its book value that is Rs.90,000. However it has a remaining useful life of five years with salvage value zero. It is being depreciated at the rate of 20% under written down value method. The new machine can be sold for Rs.2,50,000 after five years when it will be no longer required. It will be depreciated annually at the rate of 30% under written down value method. The new machine is expected to bring savings of Rs.1,00,000 in manufacturing cost per annum. Should the machine be replaced if the company is in 30% tax bracket and the required rate of return is 10% ignore tax on gain or loss on sale of assets. (15)

- Q3 X. Company operates in an industry which carry risk at the rate of 12%. The company currently has share capital of Rs.5,00,000 (5000 shares of Rs.100 each). The company wants to declare a dividend of Rs.10 per share. The company expected to have a net income of Rs.6,00,000 and has proposal for making a new investment of Rs.10,00,000. You are required to interpret the results in the light of MM- approach and also explain the assumptions made and limitations of MM model. (15)

- Q4 ABC Ltd. has assets of 32,00,000 that have been financed by Rs.18,00,000 of equity share (of Rs.100 each), general reserves of Rs.3,60,000 and debt of Rs.10,40,000 over the years ended 31st March 2020. The company's total profit before interest and tax were Rs.6,23,000. Company pays 8% interest on borrowed capital and is in the tax bracket of 40%. The market value of equity as on 31st March 2020 was Rs.150 per share. What was the weighted average cost of capital? Use market value has weights. (15)

- Q5 Critically examine the Net Operating Income and MM hypothesis to capital structure. (15)

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- Q6 (a) Assume that Rs. 20 lakh plant extension is to be financed as follows. The firm make a 15% down-payment and borrows the remaining at 9% interest rate. The loan is to be repaid in 8 equal installments beginning at the 4th year from now. What is the size of the required annual loan payment? (10)
- (b) How does discounting and compounding helps in determining the sinking funds and capital recovery? (5)

- Q7 (a) Explain Risk Adjusted Discount Rate(RADR) method in detail. (10)
- (b) ABC Ltd is considering taking a new project the management of the company wise use certainty equivalent approach to evaluate such type of projects. Following information is available for the project:

Year	CFAT	CE
1	1,15,000	0.09
2	1,15,000	0.85
3	1,15,000	0.75
4	1,15,000	0.70
5	1,15,000	0.65

Project requires project requires initial investment of Rs.3,00,000. The company cost of capital is 12%. Risk-free borrowing rate is 8%. Advise the company Whether it should take the project or not? (5)

- Q8 (a) Mr. X and investors purchase is an equity share of growing company for Rs.210. He expected the company to pay dividend of Rs.10.5, Rs.11.025, and Rs.11.575 in the year 1, 2 and 3 respectively. Determine: (10)
- (i) The growth rate of dividend and
- (ii) What is required rate of return of Mr. X on his equity investment?
- (b) Contrast the internal rate of return method of project evaluation and selection with the net present value method. Why these two discounted cash flow techniques leads to conflicts in the project rankings? (5)

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