WEST BENGAL UNIVERSITY OF TECHNOLOGY

BBA-403

FINANCIAL MANAGEMENT-I

Time Allotted: 3 Hours Full Marks: 70

The questions are of equal value.
The figures in the margin indicate full marks.
Candidates are required to give their answers in their own words as far as practicable.
All symbols are of usual significance.

GROUP A
(Multiple Choice Type Questions)

1. Answer any *ten* questions. 10×1 = 10

(i) The CAPM Model calculates the cost of equity shares by taking into consideration

(A) Risk free rate of return
(B) Beta coefficient for measuring market risk
(C) Expected returns on market as a whole
(D) All of these

(ii) In deciding the appropriate level of current assets for the firm, Management is considered with

(A) A trade-off between profitability and risk
(B) A trade-off between liquidity and marketability
(C) A trade-off between equity and debt
(D) A trade-off between short terms versus long-term borrowing

(iii) The Dividend Irrelevance Model was propounded by

(A) Walter
(B) Gordon
(C) Graham and Dodd
(D) Modigliani and Miller

(iv) Which of the following is not a motive of holding cash?

(A) Transaction Motive
(B) Precautionary Motive
(C) Revenue Motive
(D) Speculative Motive

(v) Which of the following is not a Capital Budgeting Technique?

(A) Cost Comparison Method
(B) Pay back period Method
(C) Internal rate of return Method
(D) Profitability index Method

(vi) The overall cost of Capital is also known as

(A) Marginal Cost of Capital
(B) Variable Cost of Capital
(C) Weighted Average Cost of Capital
(D) Specific Cost of Capital

(vii) To increase a given present value, the discount rate should be adjusted

(A) Upward
(B) Downward
(C) None of these
(D) Cannot be determined

(viii) Time value of money explains that-

(A) A unit of money received today is worth more than a unit received in future
(B) A unit of money received today is worth less than a unit received in future
(C) A unit of money received today and at some other time in future is equal
(D) None of these

(ix) A student takes a loan of Rs. 50,000/- from SBI. The rate of interest being charged by SBI is 10% per annum. What would be the amount of equal annual installment if he wishes to pay it back in 5 installments & 1'st installment he will pay at the end of year 5?

(A) Rs. 11,000/-
(B) Rs. 19,310/-
(C) Rs. 15,000/-
(D) None of these

(x) Issue of 12% preference shares will __________ dept-equity ratio of a corporate enterprise.

(A) decrease
(B) increase
(C) romain constant
(D) none of these

(xi) Acid Test ratio can be expressed as-

(A) Current Asstes/Liquid Liabilities
(B) Stock/Debtors
(C) Fixed Asstes/Capital
(D) Current assets-stock/current Liabilities-Bank overdraft

(xii) According to the traditional approach of capital structure, what is the effect increase in degree of leverage on the valuation of the firm?

(A) Increases
(B) Decreases
(C) Remains unaffected
(D) Increases first then decreases

GROUP B
(Short Answer Type Questions)

Answer any *three* questions. $3\times5 = 15$

2. Why do financial managers take financing and investment decisions? 5

3. State the indifference point in EBIT-EPS analysis. How is it measured? 3+2

4. State the rationale behind the use of weighted average cost of capital over specific cost of capital in evaluating a project? 5

5. Narrate the situations when a company needs to have capital budgeting decisions. 5

6. Sun Ltd. Issued 10,000, 11% Debenture of Rs.100 each. The flotation cost was @ 2% on issue price. The debentures will be redeemed at a premium of 5% after 5 years. The tax rate applicable to the company is 30%. Compute the cost of debentures. 5

GROUP C
(Long Answer Type Questions)

Answer any *three* questions. $3 \times 15 = 45$

7. X Ltd. Has a share capital of Rs. 2,00,000 divided into shares of Rs. 10 each. The present EBIT stands at Rs. 80,000 per annum. It has a major expansion programme requiring an investment of another Rs.1,00,000. The management is considering the following alternatives for raising the amount. 15

   (i) Issue of 10,000 equity shares of Rs. 10 each

   (ii) Issue of 10,000, 12% preference shares of Rs. 10 each

   (iii) Issue of 10% Debentures for Rs. 1,00,000.

   You are required to calculate the effect of the above method of financing on EPS if EBIT increases by Rs. 20,000.

8. SDF Ball bearing is an SME firm which supplies light ball bearing to large industries 15

From the following information prepare a statement showing the estimated working Capital requirement.

(i) Projected annual sales 36,000 units

(ii) Analysis of sales:

Raw material	Rs.6 p.u
Labour	Rs.4 p.u
Ovehead	Rs.3 p.u
Profit	Rs.2 p.u
Selling Price	Rs.15 p.u

(iii) Additional Information:

• Raw materials in stock	1 month
• Production process	2 months
• Finished goods in store	3 months
• Credit allowed to debtors	4 months
• Credit allowed by suppliers	2 months

- Monthly wages and expenses are paid twice on 1st and 16th of each month.
- Production is carried on evenly during the year and expenses and wages accrue similarly.

9. Sum Traven ltd. Has the following capital structure. 15

Type of Capital	**Amount**
Equity capital (1 lakh shares @ Rs 10 each)	Rs 10 lakhs
11% preference capital (1000 shares @ Rs 100 each)	Rs 1 lakhs
Retained earning	Rs 12 lakhs
13.5% debentures (5000 debentures @ Rs 100 each)	Rs 5 lakhs
12% term loan	Rs 8 lakhs
Total	**36 lakhs**

- The expected dividend on equity share is Rs 1.50 which is expected to grow @ 7%. The market price of the share is Rs 20.
- The preference share, redeemable after 10 years is currently selling at Rs 75 per share.
- The debentures redeemable after 6 years are selling at Rs 80 per debenture.
- The tax rate applicable for the company is 50%.

Compute the WACC of the company.

10.(a) A Machine has an initial cost of Rs. 2,00,000. Following are the details of 8 each inflow

Year	Cash Inflows (Rs)
1	80000
2	70000
3	95000
4	65000
5	50000

If discount rate is 10% find out the Net Present Value of the project and comment.

(b) Distinguish between "Net Present Value" and "Internal Rate of Return". 7

11. Write short notes on any *three* of the following: 3×5

(a) Agency problem

(b) Bonus share

(c) Cost of preference share capital

(d) EBIT-EPS analysis

(e) ABC system of inventory management