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CS/BBA (H)/BIRM/BSCM/SEM-4/BBA-403/2010

2010

FINANCIAL MANAGEMENT – I

Time Allotted : 3 Hours | Full Marks : 70

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
(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following :

10 × 1 = 10

i) The level of EBIT where the EPS will be equal under alternative financial plans is known as

a) Leverage | b) EBT
c) Indifference point | d) EPS.

ii) Financial Leverage affects

a) EBIT | b) EBT
c) Earnings per share | d) Future profit.

iii) Which of the following is *not* a Capital Budgeting Techinque ?

a) Pay Back policy method
b) Internal rate of return method
c) Net present value method
d) Profitability index.

iv) Capital budgeting process involves

a) project execution and monitoring

b) project screening and selection

c) project generation and evaluation

d) organization structuring.

v) Optimum capital structure is obtained from

a) Minimum firm value b) Maximum firm value

c) Average firm value d) none of these.

vi) Financial fixed cost means

a) Interest on borrowed capital

b) Dividend on equity shares

c) Transfer to reserve

d) Income Tax.

vii) In Walter's Model of dividend distribution, value per share is inversely related to pay-out ratio in

a) growth firm

b) normal firm

c) declining firm

d) multi-product firm.

viii) Overall cost of capital is also known as

a) Marginal Cost of Capital

b) Weighted Average Cost of Capital

c) Average Cost of Capital

d) Variable Cost of Capital.

ix) EPS is calculated as

a) EBIT/Net Worth

b) PAT – Preference dividend/No. of shares outstanding

c) Sales/No. of shares outstanding

d) All of these.

x) Which of the following is regarded as a tax saving instrument of financial management ?

a) Depreciation b) Income Tax

c) Dividend d) Interest.

xi) DOL at a specific level of operation of a firm is 2·50. If the sales increases by 4% then the % change in EBIT will be

a) 5% b) 12·5%

c) 10% d) –10%.

xii) Which of the following is not an assumption of capital structure theories ?

a) Risk less debt and ordinary shares are only source of fund

b) Corporate taxes exist

c) Dividend payout ratio is 100%

d) The operating profits are expected to grow.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. What do you mean by degree of operating leverage ?
3. Briefly discuss the classical EOQ model mathematically.
4. *ABC* Ltd. has a cost of capital of 10%, the current market value of the firm is Rs. 20,00,000 (@ Rs. 20 per share). At the end of the year the values for new investment, earnings and dividends of the company are Rs. 6,80,000, Rs. 1,50,000 and Re. 1 per share respectively. Show that under the M-M approach, the payment of dividend does not affect the value of the firm.
5. What do you mean by time value of money ? Which method(s) of capital budgeting take(s) the time value of money into consideration ?
6. Briefly discuss the factors determining the capital structure of a firm.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

7. a) Find the IRR of the project with the following cash flows.

   b) Find the NPV of the project with the following cash flows if the cost of capital is 2%.

8 + 7

8. A company's capital structure consists of the following :

	Rs.
Equity Shares of Rs. 100 each	20 Lakhs
Retained Earning	10 Lakhs
9% Preference Share	12 Lakhs
7% Debenture	8 Lakhs
Total	50 Lakhs

The company earns 12% on capital. The income tax rate is 50%. The company requires sum of Rs. 25 lakhs to finance expansion programme for which following alternatives are there to it :

i) Issue of 20,000 Equity shares at a premium of Rs. 25 per share

ii) Issue of 10% Preference shares

iii) Issue of 8% Debentures.

It is estimated that the P/E ratio in the case of equity preference and debenture financing would be 21·4, 17 and 15·7 respectively. Which of the three financing alternatives would you recommend and why ?

9. From the following particulars prepare a statement showing the working capital needed to finance a level of activity of 1200 units of output p.a.

Raw material	Rs. 50 per unit
Labour	Rs. 30 per unit
Overhead	Rs. 20 per unit
Total cost	Rs. 100 per unit
Profit/unit	Rs. 20
Selling price/unit	Rs. 120

Additional information :

i) Raw materials are to remain in store on an average of 2 months

ii) Materials are in process, on an average of 3 months

iii) Finished goods are in stock on an average of 3 months

iv) Credit allowed to debtors is 4 months

v) Credit availed firm suppliers for 2 months

vi) Cash in hand is desired to be maintained at Rs. 30,000.

10. What do you mean by operating cycle ? Explain how you would suggest efficiency in operating cycles of the following :

a) A company manufacturing headlights for major automobile companies.

b) A retail store selling electronic items.

c) A security agency.

d) A heritage hotel.

e) A super-specialty hospital for kidney treatment. 5 + 10

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11. Sourav Ltd. wishes to raise additional finance of Rs. 10,00,000 for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes. The following are the further details :

    i) Debt-equity mix, 30:70

    ii) Cost of debt : up to Rs. 1,80,000, 10% (before tax); beyond Rs. 1,80,000, 12% (before tax)

    iii) Earning per share, Rs. 4

    iv) Dividend payout, 50% of earnings

    v) Expected growth rate in dividend, 10%

    vi) Current market price per share, Rs. 44

    vii) Tax rate, 35%

    You are required to determine the following :

    a) The pattern for raising the additional finance, assuming the firm intends to maintain existing debt/equity mix.

    b) The post-tax average cost of additional debt

    c) The cost of retained earnings and cost of equity

    d) The overall weighted average after tax cost of additional finance.

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

a) Shareholder's wealth maximization

b) NI approach

c) The futility of Gordon's Model of Dividend Decision

d) Degree of Combined Leverage (DCL)

e) Accounting Rate of Return.