# MAULANA ABUL KALAM AZAD UNIVERSITY OF TECHNOLOGY, WEST BENGAL

**Paper Code : BBA 501 Financial Management and Risk Analysis**

*Time Allotted : 3 Hours* *Full Marks :70*

*The Figures in the margin indicate full marks.*
*Candidate are required to give their answers in their own words as far as practicable*

## Group-A (Very Short Answer Type Question)

1. Answer any ten of the following : [ 1 x 10 = 10 ]
   - (I) Define put option?
   - (II) Mention any three functions of Financial Manager/Officer.
   - (III) What do you mean by investing activities
   - (IV) Write down the formula of Earnings Growth Model of Cost of equity capital.
   - (V) What do you mean by ARR?
   - (VI) Output 800 units; Price of Raw materials Rs.10 per unit and Payment period to Creditors is 2 months. Calculate Creditors.
   - (VII) Write down the formula for CAPM mentioning all the components .
   - (VIII) When the project will be accepted in case of NPV?
   - (IX) Write down any two components of Current Assets.
   - (X) Write down any two non-discounted techniques of Capital Budgeting.
   - (XI) Which method of capital budgeting technique considered time value of money?
   - (XII) Point out any two importance of cash flow statement

## *Group-B (Short Answer Type Question)*

*Answer any three of the following* [ 5 x 3 = 15 ]

2. What are the advantages of cash flow statement ? [ 5 ]
3. Jet Ltd issued 11% Debenture of Rs.100 each on which flotation cost is paid at 3%. Debenture are redeemable after 5 years at 10% premium. Find cost of debenture if tax rate is applicable at 30%. [ 5 ]
4. What do you mean by return? Explain it with an example. [ 5 ]
5. Distinguish between balance sheet and cash flow statement [ 5 ]
6. Discuss operating cycle concept of working capital in details. [ 5 ]

## *Group-C (Long Answer Type Question)*

*Answer any three of the following* [ 15 x 3 = 45 ]

The following particulars are available from cost records of a company:

| Elements of cost | Amount per unit(Rs.) |
|---|---|
| Raw materials | 24 |
| Labour | 9 |
| Overheads | 18 |
| Total cost | 51 |
| Profit | 9 |
| Selling price | 60 |

Further information:

1) Raw materials are in stock – one month.
2) Materials are in process – half a month.
3) Finished goods are in stock – one month.
4) Credit allowed by suppliers – one month.
5) Credit allowed to debtors – two months.
6) Lag in payment of wages- 1.5 weeks.
7) Lag in payment of overhead expenses- one month.
8) 25% of output is sold against cash.
9) Cash on hand and at bank is expected to be Rs.10,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,56,000 units of annual production, It may be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

8. Calculate weighted average cost of capital from the following information : [ 15 ]

i) Capital structure of AB Ltd.

| | Rs. |
|---|---|
| Equity capital : Shares of Rs.10 each fully paid | 1,00,000 |
| Reserve(General) | 50,000 |
| Long- Term Debt | 1,00,000 |
| Total | 2,50,000 |

ii) Market price per share of AB Ltd. Is Rs.60 and earnings per share is Rs.6. Expected growth rate in earnings is 5%p.a.

iii) Cost of Debt (Before Tax) : 12% p.a.

iv) Applicable corporate tax : 40%

v) Use market values as weights and show your workings. 

9. A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly rising demand for its product. The company is faced with two alternatives : to buy Machine A which is similar to the existing machine or to go in for Machine B which is more expensive and has much greater capacity. The cash flows at the present level of operations under the two alternatives are as follows: [ 15 ]

| Machine | Immediate Cash outflow (in Lakhs) | Cash inflow(in lakhs) of Rs. At the end of | | | | |
|---|---|---|---|---|---|---|
| | | 1st year | 2nd year | 3rd year | 4th year | 5th year |
| Machine A | 25 | - | 5 | 20 | 14 | 14 |
| Machine B | 40 | 10 | 14 | 16 | 17 | 15 |

The company's cost of capital is 10%.

The finance manager tries to appraise the machines by calculating the follows:

1)Net Present Value

2) Profitability Index

3) Pay Back Period; and

At the end of his calculations, however, the finance manager is unable to make up his mind as to which machine to recommend.

You are required to make these calculations and in the light thereof to advise the finance manager about the proposed investment.

Note

Present value of Rs.1 at 10% discount rate are as follows-

| Year | 0 | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Present Value | 1.00 | 0.91 | 0.83 | 0.75 | 0.68 | 0.62 |

CP ltd. Has the following capital structure: [15]

| | Bank Value( Rs.) | Market Value(Rs.) |
|---|---|---|
| Equity Share capital:<br>25,000 share @Rs.10 each | 2,50,000 | 3,75,000 |
| 12% Preference share capital:<br>500 Share @100 each | 50,000 | 50,000 |
| Reserve and Surplus:<br>General reserve | 1,50,000 | - |
| 14% Debentures:<br>1,500 debentures @ Rs.100 each | 1,50,000 | 1,50,000 |

The expected dividend per share is Rs.1.50 with expected growth rate of 8%. Preference shares are redeemable after 5 years at par whereas debentures are redeemable after 6 years at premium of 5 %. Tax rate for the company is 35%.You are required to compute the specific cost of capital of different sources of funds and also compute the WACC using market value as weights.

11. Calculate degree of operating leverage and degree of financial leverage under situations A,B and C and financial plans 1,2 and 3 respectively from the following information of ABC Ltd. What are the combinations of operating and financial leverage which give the highest and the least value? How are these information useful to the finance manager of ABC Ltd.? [5]

| | | |
|---|---|---|
| Production and sales | | 800 units |
| Selling price per unit | | Rs.15 |
| Variable cost per unit | | Rs.10 |
| Fixed cost(Operating) | | |
| Situation A | Rs. 2,000 | |
| Situation B | Rs. 1,000 | |
| Situation C | Rs. 3,000 | |

Capital Structure:

| | Plan 1 | Plan 2 | Plan 3 |
|---|---|---|---|
| Equity | 7,500 | 5,000 | 2,500 |
| Debt(12%) | 2,500 | 5,000 | 7,500 |
| | 10,000 | 10,000 | 10,000 |

*** END OF PAPER ***