

Paper Code : 21221**F-221****B. B. A. (Fourth Semester)****EXAMINATION, 2017****(New Course)****Paper No. BBA—N—402****FINANCIAL MANAGEMENT****Time : Three Hours]****[Maximum Marks : 70****Note : Attempt any five questions. All questions carry equal marks.**

1. (a) Explain the objectives of financial management.
(b) What are the remedies for undercapitalisation ? Explain.
2. Explain the MM theory of capital structure.
3. How different components of working capital are managed ? Explain.
4. Explain the Gordon's model of dividend payment.
5. An investor has invested in a company which is growing at an above average rate, translated to an annual increase in dividends of 20 percent of 15 years. Thereafter, dividend growth returns to an average rate of 7 percent. The capitalisation rate of the company is 9 percent and the current dividend per equity share is ₹ 1 per share. Determine the value of the equity shares.

6. You are given the series of cash flows shown below :

Year	Cash Flows		
	A (₹)	B (₹)	C (₹)
1	5,000	15,000	25,000
2	5,600	15,500	26,000
3	6,400	16,100	26,500
4	7,200	16,800	26,500
5	8,200	17,600	28,000
6	—	18,500	28,500
7	—	19,500	29,000
8	—	20,600	—
9	—	21,700	—
10	—	22,800	—

- (a) Compute the compound annual growth rate associated with each cash flow stream.
 - (b) If year-1 values represents initial deposits in a saving account paying annual interest, what is the annual rate of interest earned on each account ?
 - (c) Compare the discuss the growth rate found in (a) and interest rate found in (b).
7. The Asbestos Company belongs to a risk class of which the appropriate capitalisation rate is 10 per cent. It currently has 100000 shares selling at ₹ 100 each. The firm is contemplating the declaration of a ₹ 6 dividend at the end of the current fiscal year, which has just begun. Answer the following questions based on

Modigliani and Miller model and the assumptions of no taxes :

- What will be the price of the shares at the end of the year, if a dividend is not declared ? What will be if it is declared ?
- Assuming that the firm pays dividend, has a net income of ₹ 10,00,000 and makes new investments of ₹ 20,00,000 during the period, how many new shares must be issued ?

8. A company has in its books the following amounts and specific costs of each type of capital :

Type of capital	Book value (₹)	Market value (₹)	Specific costs (%)
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000		15
Retained earnings	2,00,000	12,00,000	13
	13,00,000	16,90,000	

Determine the weighted average cost of capital using (a) book value of weights and (b) market value of weights. How are they different ? Can you think a situation where the weighted average cost of capital would be same using either of the weights ?

9. The Board of Directors of Nanak Engineering Company Private Ltd. requests you to prepare a statement showing the working capital requirements for a level of activity at 156000 units of production.

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The following information is available for your calculation :

	Per unit cost (₹)
(A) Raw Materials	90
Direct Labour	40
Overheads	75
Total	205
Profit	60
Selling price per unit	265

- Raw materials are in stock, on average one month.
 - Materials are in process, on average 2 weeks.
 - Finished goods are in stock, on average one month.
 - Credit allowed by supplies, one month
 - Time lag in payment from debtors, 2 months
 - Average time-lag in payment of wages, 1.5 weeks.
 - Average time-lag in payment of overheads is one month.

10. Explain MM hypothesis regarding dividend policy.