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Total No. of Questions: 09

Total No. of Pages: 03

BBA/Bachelor in Service Industry Management (SIM)/ B.Sc Business Economics (BBE)(Sem. 4)

FINANCIAL MANAGEMENT

Subject Code: BBA-402/BBE-402

Paper ID: A2372

Time: 3 Hrs.

Max. Marks: 60

INSTRUCTIONS TO CANDIDATES:

1. Question paper is divided into TWO Sections- A & B SECTION.
2. Section A is COMPULSORY consisting of TEN questions carrying TWO marks each.
3. Section B consists of FOUR units. Attempt ONE question from each UNIT . Each question carries TEN marks.

SECTION A

1. Write short note on the following in 2-5 lines:
 - a) What is the need of financial management?
 - b) What are the limitations of agency cost?
 - c) How single investor lease differ from leveraged lease?
 - d) What do you mean by capital budgeting.
 - e) Define unsystematic risk.
 - f) What do you mean by financial structure?
 - g) Define MVA.
 - h) What do you mean gross working capital?
 - i) Define bonus shares.
 - j) What do you mean by capital rationing?

SECTION A

Unit-I

2. In most large corporations, ownership and management are separated. What are the main implications of this separation? Define the scope of financial management? What role should the financial manager play in a modern enterprise?

3. Discuss in detail meaning and steps in financial planning capitalization. How you evaluate under and over capitalization. Describe in detail theory of capitalization.

Unit-II

4. The scientists at spectrum have come up with an electric moped. The firm is ready for pilot production and test marketing. This will cost Rs 20 million and take six months. Management believes that there is a 70% chance that the pilot production and test marketing will be successful. In the case of success, spectrum can build a plant costing Rs 150 million. The plant will generate an annual cash inflow of Rs. 30 million for 20 years if the demand is high or an annual cash inflow of Rs 20 million if the demand is low. High demand has a probability of 0.6 and Low demand has a probability of 0.4. What is the optimal course of action using decision tree analysis?
5. Define the concept of capital budgeting. Discuss in detail with the help of examples techniques of budgeting. How decision tree analysis approach can be used in capital budgeting decision?

Unit- III

6. Define cost of capital ? Explain its significance in financial decision making. Distinguish between the weighted average cost of capital and marginal cost of capital. Which one should be used in capital budgeting and valuation of the firm? Why?

7. The capital structure of Adamus Ltd. In book value terms is as follows :

Equity capital (20 million shares, Rs.10 par)	Rs. 200 million
Preference capital, 12 percent (500,000 shares, Rs.100 par)	Rs. 50 million
Retained earnings	Rs. 350 million
Debentures 14 percent (1,200,000 debentures, Rs.100 par)	Rs. 120 million
Term loans, 13 percent	Rs. 80 million

	Rs.800 million

The next expected dividend per share is Rs.2.00. The dividend per share is expected to grow at the rate of 12 percent. The market price per share is Rs. 50.00. Preference stock, redeemable after 10 years, is currently selling for Rs.85.00 per share. Debentures, redeemable after 5 year, are selling for Rs.90.00 per debenture. The tax rate for the company is 30 percent. Calculate the average cost of capital.

Unit- IV

8. (a) Define operating and financial leverage. How can you measure the degree of operating and financial leverage explain with an example.
- (b) What is the Indifference point in the EBIT- EPS analysis? How would you compute it?
9. Describe the concept of working Capital Management. What are the components of working capital? Illustrate the profitability solvency tangle in the current asset holding.

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