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Register Number:

DATE:

**ST JOSEPH’S UNIVERSITY, BENGALURU -27**

**BBA – IV SEMESTER**

**SEMESTER EXAMINATION: April 2024**

**(Examination conducted in May / June 2024)**

**BA4123: Financial Management**

**(For current batch students only)**

Time- 2 hours Max Marks-60

**This paper contains \_\_\_\_\_ printed pages and four parts**

**Section A**

**I.** Answer ***any five*** of the following (**5x2 = 10 Marks)**

1. What is meant by doubling period?
2. State the meaning of cash Dividend?
3. What is operative leverage?
4. Explain optimum capital structure.
5. What is operating cycle?
6. Mention main components of working capital.

**Section B**

**II.** Answer ***any four*** of the following (**4x5 = 20 Marks)**

1. What are the problems associated with excess working capital?
2. AB Ltd. Is planning to Invest Rs. 6,00,000 on machinery whose life is only four years. The estimated net cash flows are as follows. Calculate IRR.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Net annual Cash flows | PVF at 12% | PVF at 15% |
| 1 | 1,50,000 | 0.893 | 0.870 |
| 2 | 2,00,000 | 0.797 | 0.756 |
| 3 | 3,00,000 | 0.715 | 0.658 |
| 4 | 2,00,000 | 0.636 | 0.572 |

1. What are the different forms or types of dividends?
2. Explain the functions of financial management.

|  |  |
| --- | --- |
| Particulars | Amount (Rs) |
| Sales | 4,00,000 |
| Sales Return | 10,000 |
| Administrative and selling expenses | 20,000 |
| Interest on loans | 5,000 |
| Income Tax | 10,000 |
| Preference Dividend | 15,000 |
| Equity share capital Rs.1,00,000 at Rs.10 per share. | |

Find Earning Per Share.

**Section C**

**III.** Answer ***any two*** of the following (**2x10 = 20 Marks)**

1. The following is the capital structure of a company.

|  |  |  |
| --- | --- | --- |
| Sources of Capital | Book Value  (Rs.) | Market Value (Rs.) |
| Equity shares at Rs .100 each | 7,00,000 | 16,00,000 |
| 9% Cumulative Preference Shares at Rs.100 each | 3,00,000 | 2,50,000 |
| 11% Debentures | 700,000 | 6,50,000 |
| Retained earnings | 3,00,000 |  |
|  | 20,00,000 | 25,00,000 |

The current market price of the company’s equity share is Rs. 200.For the last year the company had paid equity dividend at 25 percent and its dividend is likely to grow 5 percent every year. The corporate tax rate is 30 percent and shareholders personal income tax rate is 20 percent.

You are required to calculate:

1. Cost of capital for each source of capital
2. Weighted average cost of capital on the basis of book value weights.
3. Weighted average cost of capital on the basis of market value weights.
4. The following figure relate to two companies.

|  |  |  |
| --- | --- | --- |
|  | Archita Ltd.  (Rs. In lakh) | Aditri Ltd.  (Rs. In lakh) |
| Sales | 500 | 1,000 |
| Variable cost | 200 | 300 |
| Contribution | 300 | 700 |
| Fixed Costs | 150 | 400 |
| EBIT | 150 | 300 |
| Interest | 50 | 100 |
| Profit before Tax | 100 | 200 |

**You are required to:**

1. Calculate the operating, Financial and combined leverages for both the companies.
2. Comment on the relative risk position of them.
3. Define working capital. Explain the factors influencing the working Capital?

**Section D**

**III. Answer the following (1x10=10 Marks)**

1. Vijay ltd. Make either of the two investments at the beginning of 2022 assuming the rate of return of 10 % p.a. Evaluate the investment proposal by:
2. Accounting Rate of return method
3. Net present value
4. Profitability Index
5. Payback period

Details are as follows:

|  |  |  |
| --- | --- | --- |
|  | Project X | Project Y |
| Cost of Investment | Rs.25,000 | Rs.30,000 |
| Life | 5 Years | 6Years |
|  | Net Income (after depreciation and tax | |
| 2018 | 600 | 3,800 |
| 2019 | 1000 | 4,500 |
| 2020 | 2,500 | 5,000 |
| 2021 | 3,000 | 4.500 |
| 2022 | 3,500 | 5,500 |
| 2023 | - | 6,000 |

It is estimated that each of the alternative projects will require an additional working capital of Rs.2,000 which will be received back in full after the expiry of the project life. Depreciation is provided under straight line method.

Present value pf Re.1 at 10% is given below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | I | II | II | IV | V | VI |
| PV Factor | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 |