(Please write your Exam. Roll No.) *Exam. Roll No. ....*

END TERM EXAMINATION

FOURTH SEMESTER [BBA (B&I)], MAY – 2011

Paper Code : BBA (B&I) 206	*Subject : Financial Management*
Paper Id : 18206	

Time : 3 Hours *Maximum Marks : 75*

Note : Attempt Five questions in all including Q. No.1 which is compulsory. All questions carry equal marks.

Q. 1. Write short notes on any **Five** of the following : **(15)**

(a) Liquidity and profitability trade-off

(b) Operating and Financial leverage

(c) Time value of money

(d) Decision Tree Analysis

(e) Weighted average cost of capital

(f) Initial public offer

Q. 2. What is the goal of Profit Maximisation for a firm? How is it different from Wealth Maximisation? Which of the two should be used? **(15)**

Q. 3. (a) Why is preference capital considered as a hybrid form of financing? **(5)**

(b) Discuss what kind of protection is provided by the pre-emptive rights. **(5)**

(c) What is the difference between private placement and preferential allotment? **(5)**

Q. 4. Metcalf engineers is considering a proposal to replace one of its hammers. The following information is available : **(15)**

(i) The existing hammer was bought 2 years ago for ₹10 lakh. It has been depreciated at the rate of $33\frac{1}{3}\%$ per annum. It can be presently sold at its book value. It has a remaining life of 5 years after which on disposal, it would fetch a value equal to its then book value.

(ii) The new hammer costs ₹16 lakh. It will be subject to a depreciation rate of $33\frac{1}{3}\%$. After 5 years it is expected to fetch a value equal to its then book value. The replacement of the old hammer would increase revenue by ₹ 2 lakh per year and reduce operating cost (excluding depreciation) by ₹ 1.5 lakh per year. Calculate the incremental post tax cash flows associated with the replacement proposal, assuming a tax rate of 50 percent.

Q. 5. Critically examine the Net Income and Net Operating Income approaches to capital structure. What is the traditional view on this question. **(15)**

Q. 6. Write notes on the following : **(5×3)**

(a) NPV vs IRR methods of valuation

(b) Motives for holding cash

(c) Walter model of Dividend

Q. 7. International Foods Limited has the following Capital Structure. **(15)**

	Book Value (₹)	Market Value (₹)
- Equity capital (2.5 million shares of ₹ 10 Par)	25,000,000	45,000,000
- Preference capital (50,000 shares of ₹100 Par carrying 13 percent dividend)	5,000,000	4,500,000
- Reserves and Surplus	15,000,000	
- Debentures (1,50,000 debentures of ₹100 Par carrying 14 percent interest)	15,000,000	14,500,000
	60,000,000	64,000,000

The expected dividend per share is ₹1.40. The dividend per share is expected to grow at a rate of 8 percent forever. Preference shares are redeemable after five years, whereas debentures are redeemable after 6 years. The tax rate for the company is 50 percent. Calculate the weighted average cost of capital for the existing capital structure, using market value proportions as weights.

Q. 8. (a) The relevant financial information for Xavier Limited for the year ended 2006 is given below : **(10)**

P & L A/c Data	(₹ Million)	Balance Sheet Data	(Jan. 2006)	(Dec. 2006)
Sales	80	Inventory	9	12
Cost of goods sold	56	Accounts receivable	12	16
		Accounts payable	7	10

What is the length of the operating cycle? The cash operating cycle. Assume 365 days to a year.

(b) Define Working Capital. Differentiate between Net and Gross working capital. **(5)**

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