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

END TERM EXAMINATION

24

FIFTH SEMESTER [BBA] DECEMBER-2012

Paper Code: BBA/BBA(TTM/MOM)-309 **Subject: Financial Management**

Time : 3 Hours **Maximum Marks :75**

Note: Attempt any five questions including Q.no.1 which is compulsory. All questions carry 15 marks each.

Q1 (a) Evaluate wealth maximization objective of financial management.
(b) What is an annuity? What is the difference between an ordinary annuity & annuity due?
(c) How is the cost of preference share calculated?
(d) What do you understand by residual dividend policy?
(e) Why do you think that excess of cash holding is not good.

Q2 XYZ Ltd. is considering two different investment proposals. The details are under:

Investment Estimated Inflows	Proposal I Rs.9,500	Proposal II Rs.20,000
Year I	4000	8000
Year 2	4000	8000
Year 3	4500	12000

$\frac{1}{(1+\frac{r}{100})^n}$

Suggest the most attractive proposal on the basis of the NPV method considering that discounting rate is 12%. Also find out the IRR of the two proposals.

Q3 The following financial data have been furnished by A Ltd. & B Ltd. for the year ended 31.03.2012:

	A Ltd.	B Ltd.
Operating leverage	3:1	4:1
Financial leverage	2:1	3:1
Interest charges P.A.	Rs. 12 Lakhs	Rs. 10 Lakhs
Corporate tax rate	40%	40%
Variable cost as % of sales	60%	50%

Prepare income statement of the two companies. Also comment on the financial position and structure of the two companies.

Q4 Explain the Modigliani and Miller's hypothesis of dividend irrelevance. Does this hypothesis suffer from any deficiencies?

Q5 XYZ company buys in lots of 500 boxes which is a 3 month supply. The cost per box is Rs. 125 and ordering cost is Rs. 120. The inventory carrying cost is estimated at 20% of unit value. What is the total annual cost of the existing inventory policy?

How much money could be saved by employing the economic order quantity?

Q6 How do you view financial management as a science or as an art?

Q7 Companies X and Y are identical in all respects except for debt-equity ratio. X having issued 10% debentures of Rs.18 lakhs while Y has issued only equity. Both the companies earn 20% before interest and taxes on their total assets of Rs.30 lakhs.

Assuming a tax rate of 40% capitalization rate of 15% for an all equity company compute value of companies X and Y using
(i) net income approach
(ii) net operating income approach

Q8 Write short note on any three:
(i) Factoring
(ii) Forfeiting
(iii) Over and under trading
(iv) [illegible]