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V SEMESTER BBA EXAMINATION – MARCH / APRIL – 2022

SCHEME – SEMESTER – CBCS

FINANCIAL MANAGEMENT – I

FINANCIAL DECISIONS

016

Time: 03 Hours

Max Marks: 80

Instructions to Candidates: Answer all parts.

PART – A

Answer any TWO of the following. Each Question carries 15 Marks: 15x2=30

1. Following information is available in respect of 3 companies.

Particulars	'A' Ltd.	'B' Ltd.	'C' Ltd
r	15%	10%	8%
k	10%	10%	10%
E(₹)	40	40	40

Find out the effect of dividend payout on the price of equity shares of the above companies under "Gordon's Model" when D/P ratios (1-b) is:

- a) 40% b) 50% c) 70% d) 90%

2. Aryan Ltd., is considering an investment decision to install a new Machine. Project will cost ₹4,00,000/- and will have a life of 5 year. The company's tax rate is 30%. The firm uses straight line method of depreciation. The income before depreciation and tax from the proposed is as follows.

Year	CBDT (₹)
1	80,000
2	88,000
3	1,12,000
4	1,20,000
5	2,00,000

Compute the following:

- a) Pay back period  
b) ARR

PTO



c) NPV @ 10% discount rate

d) Profitability Index @ 10%

Note: PV factors for ₹ 1 @ 10% are 0.909, 0.826, 0.751, 0.683, 0.621 for 1 to 5 years.

3. Define the term Financial Management. Explain the various sources of finance.
4. Ananya Ltd., Company has the following Capital Structure.

	₹
Equity Share Capital (1,00,000 shares of ₹ 10 each)	10,00,000
10% Preference Shares	8,00,000
12% Debentures	12,00,000
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	30,00,000
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The Market price of the equity share is ₹ 10. Expected dividend is ₹ 5 per share and growth rate is 8% forever. Assume tax rate @ 30%. Compute the following.

- a) Weighted average cost of capital based on existing capital structure.
- b) New weighted average cost of capital if the company raise an additional capital of ₹ 10,00,000 by 13% debenture. The additional debt would result in increase in the expected dividend to ₹ 6 per share. However, the growth rate remains the same, but the price of share will fall to ₹ 8 per share.

#### PART - B

Answer any **THREE** of the following. Each Question carries 10 Marks:  $10 \times 3 = 30$

5. A firm has an expected annual income of ₹ 80,000 at an equity capitalization rate of 10% ( $K_e$ ) and ₹ 2,50,000 5% debt. Calculate the value of the firm and its overall cost of capital ( $K_o$ ) under NI approach.
6. The Capital structure of Manvitha Co. Ltd., consists of an equity shares capital of ₹ 20,00,000 (shares of ₹ 10 per value) and ₹ 20,00,000 of 20% debentures. Sales increased by 25% from 4,00,000 units to 5,00,000 units. The selling price is ₹ 10 per unit and fixed expenses amounted to ₹ 5,00,000. Income tax rate is assumed to the 50%, variable cost amount to ₹ 6/- per unit.

You are required to calculate:

1. Operating leverage
2. Financial leverage
3. Combined leverage

PTO



7. Following is the capital structure of Divya Company.

	₹
Equity Share Capital (₹ 30 each)	4,50,000
10% Preference capital	3,00,000
12% Debenture	2,50,000

Calculate the EPS:

a) If EBIT of the Company is ₹ 2,80,000

b) If EBIT of the Company is ₹ 3,20,000

The corporate tax rate is 30%

8. Explain the factors influencing cost of capital.
9. What are the factors which determine the dividend policy of a company.

### PART – C

Answer any **FOUR** of the following. Each Question carries 5 Marks: 5x4=20

10. The EPS of Raya Ltd., is ₹ 30. Its rate of Return (r) and cost of equity (Ke) are 12% and 10% respectively. The dividend payout ratio is 25%. Compute the price of equity share under Walter's Model.
11. What is Capital Budgeting?
12. What is Financial Leverage?
13. Write a note on Time Value of Money.
14. Write a note on Pay Back Period.
15. Write a note on Stable Dividend Policy.

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