May 2015

Bachelor of Business Administration (BBA) Examination

II Semester

Financial Management

Time : 3 Hours] [Max. Marks : 80

Note : Attempt any two questions from Section A and any three questions from Section B. All questions carry equal marks.

Section A

1. Do you agree that the basic objective of financial management is wealth management and not profit maximization ? Justify your answer.
2. What do you mean by financial analysis of a corporate firm ? Discuss any two important tools of financial analysis with their merits and limitations.
3. What do you mean by investment decisions of a firm ? Explain various time-discounted cash flow techniques for taking investment decisions.

Section B

4. The summarized balance-sheet of a limited company for the year ended 31/3/14 and 31/3/13 were as follows :

Liabilities	Amount (Rs.)		Assets	Amount (Rs.)	
	31/3/14	31/3/13		31/3/14	31/3/13
Share Capital	5,00,000	5,00,000	Land and Building	2,00,000	1,80,000
General Reserve	2,20,000	2,00,000	Plant and Machinery	2,76,000	2,10,000
Profit / Loss A/c	32,000	40,000	Other Fixed Assets	45,000	30,000
L. T. Loan	1,00,000	-	Investments	50,000	50,000
Creditors	1,72,000	1,58,000	Stock	1,90,000	2,00,000
Prov. for Tax	30,000	45,000	Debtors	1,95,000	1,70,000
			Bank	98,000	1,03,000
Total	10,54,000	9,43,000		10,54,000	9,43,000

Additional Information :

(a) Dividend of Rs. 30,000 was paid during the year.

(b) A tax provision of Rs. 12,000 was made during the year.

(c) Investments costing Rs. 10,000 was sold for Rs. 12,000.

(d) During the year, depreciation of Rs. 5,000 was provided for on Land and Building and depreciation of Rs. 20,000 was provided for on Plant and Machinery. A part of machine with a book value of 15,000 was sold for Rs. 12,000.

Prepare a Cash Flow Statement as per AS 3.

5. X Ltd. is planning to invest in a new project requiring Rs. 50 lacs, for which following financing options are available :

Particulars	Finance (Rs.) OPT. I	OPT. II	OPT. III
Share Capital	50 lacs	20 lacs	10 lacs
14% Debentures	-	20 lacs	15 lacs
18% Bank Loan	-	10 lacs	25 lacs
Total	50 lacs	50 lacs	50 lacs

Expected rate of return on invested capital (before interest and tax) is 25%. Corporate tax rate is 35%. Calculate degree of financial leverage in three options and suggest the best option on the basis of EPS. Assume face value of each share Rs. 100.

6. You are supplied with the following information by XYZ Ltd. for the next year :

(1) Production - 69,000 units.
(2) Raw Materials in Store : 2 month's consumption.
(3) Production Process - 1 month.
(4) Finished goods in store : 2 months.
(5) Credit allowed by suppliers - 2 months.
(6) Credit given to customers - 3 months.
(7) Cost and Sale structure (per unit) is as follows :

Raw Material	:	Rs. 25
Direct Wages	:	Rs. 5
Manufacturing OHs	:	Rs. 5
Administrative OHs	:	Rs. 4
Selling and Dist OHs	:	Rs. 3
Total Cost	:	Rs. 42
Profit	:	Rs. 8
Selling Price	:	Rs. 50

(8) Wages are paid in the next month of accrual. Material is introduced in the begin of production cycle.

Calculate working capital required by the company. State your assumptions.

7. A company is considering an investment proposal costing Rs. 5,00,000. The expected life of project is 5 years with no salvage value. Assume straight line method of depreciation and tax rate of 35%. estimated CFBT are as follows :

Year 1	:	Rs. 1,60,000
Year 2	:	Rs. 1,66,920
Year 3	:	Rs. 1,27,690
Year 4	:	Rs. 1,34,620
Year 5	:	Rs. 2,03,850

Calculate : (a) Av. Rate of Return, (b) Pay Back Period, and (c) Discounted Pay Back Period assuming cost of capital of 10%.

PV Factor	:	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
@10%	:	.909	.826	.751	.683	.621

8. Palash Ltd. has the option to buy either machine A or machine B. Machine A will cost Rs. 75,000 and it's expected life is 6 years with salvage value of Rs. 3,000. It would generate Profit After Tax (PAT) of Rs. 20,000 per annum. Machine B will cost Rs. 50,000 with expected life of 6 years and salvage value of Rs. 2,000. If would generate Profit Before Tax (PBT) of Rs. 25,000 per annum.

Assuming cost of capital of 12% and tax rate of 35%, advice the company on better alternative using Net Present Value (NPV) criteria.

PV factor	:	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6
@12%	:	.893	.797	.712	.636	.567	.507

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