



'समानो मन्त्रः समितिः समानी'

UNIVERSITY OF NORTH BENGAL
BBA Honours 3rd Semester Examination, 2022

CC7-BBA (303)

FINANCIAL MANAGEMENT

Time Allotted: 2 Hours

Full Marks: 60

The figures in the margin indicate full marks.

Candidates should answer in their own words and adhere to the word limit as practicable.

GROUP-A

Answer any *two* questions from the following

12×2 = 24

1. Alpha-Beta Ltd. is considering the purchase of one of the two alternative machines, Machine A and Machine B, each costing ₹6,00,000. Net Cash inflows of the machines are expected to be as follows:

6+6

Year	Cash Flow (₹)	
	Machine A	Machine B
1	50,000	1,05,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,50,000	1,25,000
5	1,50,000	90,000

The required rate of return for the company is 10%. You are required to compare the profitability of the machines based on Net Present Value and Internal Rate of Return Method.

2. Prepare an estimate of net working capital requirement for Modern Manufacturing Company. 'Break up of per unit manufacturing costs' has been given below:

12

	₹
Raw materials	70
Direct labour	30
Overhead	60
Total	160
Profits	40
Selling Price	200

Following necessary information is also furnished.

Raw materials in stock	Average 4 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by the suppliers	Average 5 weeks
Credit allowed to debtors	Average 6 weeks
Lag in payment of wages	Average 2 weeks
Work in progress	Average 3.5 weeks
Cash in bank is expected to be	₹30,000

3. A manufacturing firm needs ₹2,00,000 for financing its expansion. The firm can issue equity shares of ₹10 each or issue 12% debenture of ₹100 each. Management presents four different financing plans, as shown below, for raising the required capital. 12

Financing Plan	I	II	III	IV
Equity	2,00,000	1,50,000	1,00,000	50,000
12% Debenture	-	25,000	1,00,000	1,50,000
Total financing	2,00,000	2,00,000	2,00,000	2,00,000
No. of equity shares	10,000	7,500	5,000	2,500

Given the effective tax rate of the firm is 30%. Profits before interest and taxes are ₹40,000, which financing plan the firm should adopt?

4. Discuss Modigliani-Miller's dividend irrelevance hypothesis with necessary assumptions. Also explain, in the context of their hypothesis, what makes dividend decision relevant? 8+4

GROUP-B

5. Answer any **four** questions: 6×4 = 24
- (a) Define Wealth. How can you measure the appreciation of the wealth of a firm? Outline the decision rules that can maximize shareholders' wealth. 1+2+3
- (b) Discuss briefly how the length of 'cash conversion cycle' and period of credit collection can influence working capital requirement of a firm. 6
- (c) Capital Structure of Eastern Trading Company Limited has been given below 6

Type of capital	Book Value
12% Debenture	₹6,00,000
10% Preference Share	₹2,00,000
Equity share Rs 100 each	₹5,00,000
Reserve and Surplus	₹2,00,000

The company proposes to pay a dividend of ₹12 per share and the dividend per share is likely to grow at 3% per annum. Given, the corporate tax rate is 25%; find the weighted average cost of capital.

- (d) Outline the rules of dividend payment as indicated in Gordon's dividend capitalization model. What are the limitations of the model? 3+3
- (e) A company has an annual requirement of 3,600 units to be ordered in six lots. Each unit cost ₹3 and the ordering cost is ₹125 per order. The inventory carrying cost is estimated to be 20% of the unit value. Find the total annual cost of the existing inventory policy. How much money can be saved by using EOQ? 2+4
- (f) Define optimal capital structure. Enumerate the factors affecting capital structure decisions. 2+4

GROUP-C

6. Answer any *four* questions:

3×4 = 12

- (a) State the limitations of profit maximization objective.
- (b) How is the risk of an investment measured?
- (c) Define the term ‘cost of capital’.
- (d) What is called the hedging approach to working capital policy?
- (e) What is the difference between a payback period and discounted payback period?
- (f) What is operating leverage?

Table: Present Value Factor
Discounting Rates

	10%	12%	13%	14%	15%	16%	17%	18%	20%
1	0.9091	0.8929	0.8850	0.8772	0.8696	0.8621	0.8547	0.8475	0.8333
2	0.8264	0.7972	0.7831	0.7695	0.7561	0.7432	0.7305	0.7182	0.6944
3	0.7513	0.7118	0.6931	0.6750	0.6575	0.6407	0.6244	0.6086	0.5787
4	0.6830	0.6355	0.6133	0.5921	0.5718	0.5523	0.5337	0.5158	0.4823
5	0.6209	0.5674	0.5428	0.5194	0.4972	0.4761	0.4561	0.4371	0.4019
6	0.5645	0.5066	0.4803	0.4556	0.4323	0.4104	0.3898	0.3704	0.3349
7	0.5131	0.4523	0.4251	0.3996	0.3759	0.3538	0.3332	0.3139	0.2791

—x—