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Department of Management
School of Management &Business Studies
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EvenSemesterExamination2022
BBA IV Semester

Subject Name: FINANCIAL MANAGEMENT MM: 75
Subject Code: BBA-F-14 / BBA(I) – F-14 Time: 03Hours

Sec A

Attempt any six questions, each question carries 5 marks (6 X 5 = 30)

Q1: Mr. A invested in the stock of Company X. He is expecting a dividend per share of Rs 5 annually forever. The cost of equity is 10%. What is the value of the share of Company X?

Q2: Compare the Net operating income approach & Net Income Approach of Capital Structure.

Q3: The EPS of Company Z is Rs 10 & the retention ratio is 70%. The return on equity is 27%. The cost of equity is 18%. What is the value of the share of Company Z using Walter's model, assuming the EPS, the retention ratio, and the cost of equity remain constant over the life of the Company?

Q4:Replace '?' in the CF2 series with a cash flow such that the IRR of the CF2 series equals the IRR of the CF1 series.

Year	0	1	2	3
CF1	-100	40	30	40
CF2	-100	30	30	?

Q5:Compare the role of treasurer and controller in the finance department of a typical company.

Q6:Mr. B wants to invest in the stock of Company Y. He is expecting a dividend per share of Rs 5 for the current year. The dividend is expected to grow @ 3% annually forever and the cost of equity is 8%. What price should he pay for the share of Company Y?

Q7:If the lead time varies between 60 days and 180 days with an average value of 90 days, and the usage rate varies between 75 units and 125 units per day with an average value of 100 units per day, find the safety stock required to provide complete protection against stock out.

Q8:Mr. X invests Rs 10,000 at the end of every year from now for the next 5 years and accumulates Rs 63,655 at the end of the fifth year. At what rate of interest did he invest his money? Assume there are no withdrawals in between and the interest is compounded annually.

Q9: Company X is looking to loosen its credit standards. The loosening is expected to increase the sales by Rs 10,00,000. The average collection period will increase from 20 days to 30 days & the bad debts would increase from 3% to 5% of sales. The tax rate applicable to the company is 35%. The contribution margin ratio is 15%. The cost of capital for the company is 23%. What will be the impact of such a decision on the residual income of the company?

Sec B

Attempt any three questions, each question carries 15 marks (15 X 3 = 45)

Q1: What are the different ways of creating value for the shareholders of the company? Explain.

Q2: Calculate Discounted Payback Period, NPV & IRR for the following project cash flows:

Year	0	1	2	3	4	5
CF	-100	10	20	30	40	50

Assume a cost of capital of 18%

Q3:'When the NPV of a project is positive, then its IRR has to be more than the hurdle rate'. Explain.

Q4: What is the 'Agency Problem' in the context of corporations? What is its impact on the dividend policy of the company? What would be your expectations as a shareholder of the company suffering from the 'agency problem'?

Q5:Differentiate between Baumol's & Miller Orr's Cash Management model.

Q6:'There is no optimal capital structure'. Comment.

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