Sl No of QP :4302

This question paper contains ..... printed pages] Roll No.............

Unique Paper Code : 2924002001

Name of the Paper : Fundamentals of Financial Management

Name of the Course : BBA (FIA)

Semester : V

Duration : 3 Hours

Maximum Marks :90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of the question paper.
2. Attempt any **five** questions including question No.1 which is compulsory.
3. Attempt all parts of a question together.
4. Marks are indicated against each question.
5. Show your working clearly on the answer sheet.

1. (a) ABC Ltd was started a year ago with a paid-up equity capital of ₹40,00,000. The other details are as under:

Earnings of the company: ₹4,00,000

Dividend paid: ₹3,20,000

Price-earnings ratio: 12.5

Number of shares: 40,000

i. Find the company's dividend payout ratio. Find the market price of a share of the company at this payout ratio, using Walter's model.
ii. Is the company's dividend payout ratio optimal as per Walter's model? Why?
iii. What is the market price of a share of the company at the 'optimal dividend payout' ratio as per Walter's model? (12 marks)

b). Discuss the MIRR technique of Capital Budgeting. (6 Marks)

2 a) Calculate the different types of leverages from the table given below for X Ltd. (Figures in millions Rs)

Sales	60000
Less: Variable Costs	21000
Contribution	39000
Less: Fixed Costs	9000
EBIT	30000
Less: Interest	5000
Profit Before Tax	25000

What will be the change on EBIT and EPS if sales increase by 10%. (12 marks)

b) A project requiring a Rs.10 million investment has a profitability index of 1.21. What is its net present value? (6 marks)

3. a) Calculate the explicit cost of debt for each of the following situations: (a) Debentures are sold at par and flotation costs are 5 per cent. (b) Debentures are sold at premium of 10 per cent and flotation costs are 5 per cent of issue price. (c) Debentures are sold at discount of 5 per cent and flotation costs are 5 per cent of issue price. Assume: (i) coupon rate of interest on debentures is 10 per cent; (ii) face value of debentures is Rs 100; (iii) maturity period is 10 years; and (iv) tax rate is 35 per cent. (12 marks)

(b). How weighted average cost of capital is computed? Explain (6 marks)

4. a). A company needs Rs. 31,50,000 for the construction of a new plant. The following three plans are feasible:

I The company may issue 3,15,000 equity shares at Rs. 10 per share.

II The company may issue 1,57,500 equity shares at Rs. 10 per share and 15,750 debentures of Rs. 100 denomination bearing a 7% rate of interest.

III The company may issue 1,57,500 equity shares at Rs. 10 per share and 15,750 cumulative preference shares at Rs. 100 per share bearing a 7% rate of dividend.

You are required to calculate: -

(i) If the company's earnings before interest and tax is Rs. 8,25,000, what are the earning per share under each of three plans? Assume a corporate tax rate of 20%.

(ii) Which alternative would you recommend and why?

(iii) Determine the EBIT-EPS indifference points by formulae between Financing Plan I and Plan II, Plan I and Plan III.

(12 Marks)

b). How does the cost of equity capital behave in the traditional theory and MM approach to capital structure? (6 marks)

5.a). With the help of a diagram, describe the Net operating income approach to capital structure in deciding about the financing mix for a company. (6 marks)

b). Briefly describe the costs associated with management of receivables. (6 marks)

c.) Critically analyse the EOQ model of inventory management. (6 Marks)

Q6 a). Briefly discuss the Baumol's model of cash management. (6 Marks)

b) (a). Estimate net working capital required for his project on the basis of data given below.

Estimated cost per unit of production:	(Rs.)
Raw Material	25
Direct Labour	15
Overheads (inclusive of depreciation Rs. 10)	45
Selling & Distribution	15
Total	100

The following information is also available:

i. It is proposed to maintain a level of activity of 5,00,000 units per annum.
ii. Selling price is Rs 120 per unit.
iii. Raw materials are expected to remain in stores for an average period of 3 weeks.
i. Work-in-progress (assume 50%completion stage) are expected to remain in stores for an average period of 2 weeks. Assume raw material is completely fed into the production process at the beginning of the period.
ii. Finished goods are required to be in stock on an average period of 6 weeks.
iii. 80% of total sales are credit sales.
iv. Average credit allowed to debtors is 3 weeks.
v. Average credit allowed by suppliers is 4 weeks.
vi. Lag in payment of wages average 2½ weeks.
vii. Lag in payment of overheads average 2 week.
viii. The company wishes to have a desired cash balance of Rs. 1,00,000.
ix. 5 per cent of net working capital is required to be maintained for contingencies.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. (12 marks)