

2026

BUSINESS ADMINISTRATION — HONOURS

Paper : BBAA-401-CC 5

(Financial Management)

Full Marks : 75

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Group - A

1. Answer **any ten** questions :

2×10

- (a) What is Time Value of Money?
- (b) What do you mean by capital budgeting?
- (c) What is Accounting Rate of Return?
- (d) State any two importances of Cash Management.
- (e) How will you resolve the conflict between the ranking of two projects under NPV and IRR?
- (f) Write any two points of difference between EPS and DPS.
- (g) How would you compute Profitability Index?
- (h) What is an optimum credit policy?
- (i) What is Internal Rate of Return (IRR)?
- (j) Why is Debt capital considered to be the cheaper source of capital for the company?
- (k) What is an interim dividend?
- (l) Write any two features of Levered firm.
- (m) Define Irredeemable debenture.
- (n) What is Systematic Risk?
- (o) What is Working Capital Cycle?
- (p) What is maximum level of stock?

Please Turn Over

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Group - B

2. Answer *any five* questions :

5×5

- (a) Distinguish between 'Operating Leverage' and 'Financial Leverage'.
- (b) JK Ltd. has annual demand of 10000 units of material, Ordering cost is ₹ 400 per order and carrying costs are ₹ 200 per unit. The Safety stock is 30% of EOQ. The daily usage is 18 units and lead time is 4 days. Calculate (i) EOQ (ii) Safety Stock (iii) Reorder point.
- (c) State and discuss the factors to be considered to forecast Working Capital requirements of a firm.
- (d) Mr. Fergusson wants to invest ₹ 15,00,000 for a period of 7 years into a private bank in their fixed deposit schemes. The bank offers following two schemes to him :

Scheme 1 : Deposit at 9% p.a. interest compounded half-yearly

Scheme 2 : Deposit at 9.5% p.a. interest compounded yearly

Compute the future values under Scheme 1 and 2 and advise Mr. Fergusson, as to which Scheme should he choose.

- (e) Discuss the steps in calculating the weighted average cost of capital.
- (f) From the following particulars, determine the market value of the firm, market value of equity and cost of equity under NOI approach of Limca Ltd. :

% of debt	Cost of debt (Kd) (%)	Overall cost of capital (Ko) (%)
0	—	15
20	10	15
50	10	15
75	10	15

- (i) Net operating income of the company is ₹ 1,00,000
- (ii) Total amount of investment is ₹ 5,00,000
- (iii) Assume there is not corporate tax.

Which capital structure will you recommend and why?

- (g) Distinguish between Net Income Approach and Net Operating Income Approach of capital structure.
- (h) Pepsi Ltd. has 1,20,000 outstanding shares. The current share price is ₹ 25. The company's estimated net profit is ₹ 6,00,000 during the year ending on 31st March 2025. Following its past dividend distribution policy, Pepsi is considering paying a dividend of ₹ 5 per share. The capitalization rate of the company is 25%. There are no taxes. Using the Modigliani-Miller approach, calculate the price of the share at the end of 31st March 2025 if (i) dividend is paid and (ii) the dividend is not paid.

Group - C

Answer *any three* questions.

3. (a) Distinguish between Profit Maximisation and Wealth Maximisation objectives of the firm.
(b) Explain the interrelationship between Investment Decision, Financing Decision and Dividend Decision. 5+5
4. A company proposes to undertake the following project. The Initial Investment and Annual Cash Inflows are as under : 10

Initial Investment	₹ 30,00,000
Salvage Value at the end of life	0
Estimated life of the Project	7 years
Annual Cash Inflows :	
Year 1	₹ 5,00,000
Year 2	₹ 7,50,000
Year 3	₹ 7,50,000
Year 4	₹ 12,50,000
Year 5	₹ 12,50,000
Year 6	₹ 10,00,000
Year 7	₹ 8,00,000

The Company's Cost of Capital is 15%

You are required to calculate :

- (a) NPV of the Project
(b) Internal Rate of Return (IRR) of the Project

Given : Present Value of Re. 1			
Year	20%	21%	22%
1	0.833	0.826	0.820
2	0.694	0.683	0.672
3	0.579	0.564	0.551
4	0.482	0.467	0.451
5	0.402	0.386	0.370
6	0.335	0.319	0.303
7	0.279	0.263	0.249

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5. The capital structure of Sprite Ltd. is given below :

Equity share capital (₹ 10 per share)	₹ 10,00,000
Retained earnings	₹ 6,00,000
10%, Preference share capital	₹ 4,00,000
	<u>₹ 20,00,000</u>

The firm has planned to undertake an expansion scheme of ₹ 10,00,000 which can be financed (i) entirely by issue of equity shares of ₹ 10 each, or (ii) by issue of 12% debentures of ₹ 100 each at par.

As a result of expansion, sales and operating fixed cost will increase by 60% and 75% respectively. The other relevant information are given below :

Sales	₹ 50,00,000
Variable Cost	60%
Operating Fixed cost	₹ 500,000
Corporate tax	40%

Calculate Leverage and EPS before and after expansion and give your opinion for taking an appropriate decision with respect to finance. 10

6. Campa Ltd. requires additional financing of ₹ 20,00,000 to meet its investment plans. It has ₹ 4,00,000 in the form of retained earnings available for investment purposes. The following are further details :

- (i) Proportion of Debt and Equity in capital structure 40:60
- (ii) Cost of debt : up to ₹ 4,00,000, 10% (before tax)
Beyond ₹ 4,00,000, 12% (before tax)
- (iii) Earnings per share ₹ 5.00
- (iv) Dividend payout 60% of earnings
- (v) Expected growth rate in dividend 5%
- (vi) Current market price per share ₹ 35
- (vii) Tax rate 35%.

Compute the overall weighted average after tax cost of capital for Campa Ltd. 10

7. From the following information, prepare a statement showing the Working Capital required to finance a level of activity of 10,400 units per annum : 10

- (i) Selling price at the rate of ₹ 5 per unit
- (ii) The expected ratios of cost to selling prices are as follows :
 - (a) Raw material : 40%
 - (b) Direct wages : 10%
 - (c) Overheads : 30%
 - (d) Profit : 20%

- (iii) Raw materials are expected to remain in store for an average period of 2 months before being used for production and materials are in process on an average period of 6 weeks.
- (iv) Finished goods will stay in store approximately for 6 weeks before dispatch to customers.
- (v) Credit allowed to debtors is for a period of 2 months.
- (vi) Credit allowed by creditors is for a period of 2 months.
- (vii) Lag in payment of wages and overheads is for a period of 2 weeks.
- (viii) Cash in hand and bank is expected to be ₹ 10,000.

It may be noted that production is carried on evenly during the year and wages and overheads accrue similarly. Assume 4 weeks a month.
