

# PP SAVANI UNIVERSITY

Third Semester of BBA Examination  
November 2022

SMBB2150 Financial Management in Business

24.11.2022, Thursday

Time: 09:00 a.m. To 11:30 a.m.

Maximum Marks: 60

## Instructions:

1. The question paper comprises of two sections,
2. Section I and II must be attempted in same answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.
4. Use of simple calculator is allowed.

## SECTION - I

- Q - 1** Answer the following Questions (Any five) [05] CO BTL
- (i) How do you compute the future value of a single cash flow? 1 3
- (ii) What is wealth maximisation? 1 1
- (iii) How does 'Preference' Shares differ from 'Equity' Shares? 3 4
- (iv) Define : "Financial Management" 1 1
- (v) Narrate the formula for calculating the Cost of Equity using the CAPM Approach. 2 1
- (vi) What do you understand by cost of capital? 2 2
- (vii) What is Debenture? 3 1
- Q - 2 (a)** What is the meaning of Financial Management? Explain the objectives of Financial Management. [05] 1 2
- Q - 2 (b)** The risk-free rate is 10 % and the return on market portfolio is 15 %. [05] 2 3  
Calculate the required rate of return on the three type's equity stock with the beta values shown against them.

Stock	Beta
X	0.5
Y	1.0
Z	1.5

OR

- Q - 2 (a)** Suppose you deposit Rs. 1000 today in a bank which pays 10% interest compounded annually, how much will the deposit grow to after 8 years and 12 years? [05] 1 3
- Q - 2 (b)** Your father is about to retire. His firm has given him the option of retiring with a lump sum of Rs. 20, 00,000 or an annuity of Rs 2, 50,000 for 10 years. Which is worth more now, if an interest rate of 6% is his required rate of return? [05] 1 3
- Q - 3** A Firm's after-tax cost of capital of the specific sources is as follows: [10] 2 3
- Cost of debt 8%
- Preference Capital 14%
- Cost of equity funds 17%

The following is the capital structure

Sources	Amount
Debt	₹ 3,00,000
Preference Capital	₹ 2,00,000
Equity Capital	₹ 5,00,000
	₹ 10,00,000

Calculate the weighted average cost of capital, k<sub>0</sub>, Using book value

weights.

OR

- Q - 3 Define the concept of 'Cost of Capital'. Explain about computation of cost of different components of capital. [10] 2 2
- Q - 4 Attempt any one. [05]
- (i) Discuss the long term and short term sources of finance. 3 2
- (ii) The current market price per share of AB Limited is Rs 200. The dividend expected a year from now is Rs 12 and it is expected to grow at a constant rate of 10 per cent. The floatation (issue) cost for the new issue will be 10 per cent. What is the cost of new equity? 2 3

**SECTION - II**

- Q - 1 Answer the Following: [05]
- (i) Define the term working capital. 4 1
- (ii) What is operating cycle? 4 1
- (iii) What is EOQ? 4 1
- (iv) What are the current assets? 4 1
- (v) What is credit period? 4 1
- Q - 2 A firm requires total capital funds of Rs. 25, 00,000 and has options: All equity and half equity and half 15% debt. The equity shares can be currently issued at Rs.100 per share. The expected EBIT of the company is Rs.2, 50,000 with tax rate at 40%. Find out the EPS under both the financial mix. [10] 3 3

OR

- Q - 2 (a) Explain the level of current assets and financing. [05] 4 2
- Q - 2 (b) Explain the concept of Cash Budget with an illustration. [05] 4 2
- Q - 3 (a) Explain - "Operating Leverage and Financial Leverage" [05] 3 2
- Q - 3 (b) Pioneer Stores is trying to determine the economic order quantity for a certain type of machine tool. The firm sells 60,000 numbers of this machine tool annually at a price of Rs.80 per piece. The purchase price per machine tool to the firm is, however, Rs.65. The cost of carrying a machine tool is Rs.10 per year and the cost of placing an order is Rs.80. What are the total cost associated with placing one, two, five, and ten orders per year? What is the economic order quantity? [05] 4 3

OR

- Q - 3 A proforma cost sheet of a company provides the following particulars: [10] 4 3
- | Particulars   | Amount per unit |
|---------------|-----------------|
| Raw materials | Rs 80           |
| Direct labour | 30              |
| Overhead      | 60              |
| Total cost    | 170             |
| Profit        | 30              |
| Selling price | 200             |

The following further particulars are available: Raw materials in stock, on average, one month; Materials in process (completion stage, 50 per cent), on average, half a month; Finished goods in stock, on average, one month. Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume



that production is carried on evenly throughout the year, and wages and overheads accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month

Q - 4

Attempt any one.

[05]

(i) Discuss the "Bank Finance" as working capital finance.

4 2

(ii) Sales (200000 units Rs. 16 each) = 3200000

3 3

Variable Cost (Rs. 8 per unit) = 1600000

Fixed Cost = 480000, Interest = 120000

Calculate the degree of operating leverage, financial leverage and combined leverage

CO : Course Outcome Number

BTL : Blooms Taxonomy Level

Level of Bloom's Revised Taxonomy in Assessment

1: Remember	2: Understand	3: Apply
4: Analyze	5: Evaluate	6: Create

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