



End Semester/Reappear (Semester IV) Examination June 2022

Programme: BBA
Subject: Financial Management II
Subject Code: 11.251
Enrollment No: _____

Full Marks: 70
Time: 3 Hrs.

Section I

- 1. Short Answer type questions. Answer any four. 4 x 5 = 20**
- Discuss the significance of cost of capital in financial decision making.
 - 'The equity capital is cost free'. Do you agree? Give reasons.
 - Explain why a stable dividend policy should be followed. Also analyze the consequences of changing a stable dividend policy.
 - Analyze the factors that influence management's decision to pay dividend of a certain amount?
 - Define economic order quantity. How is it computed?
 - A customer has been ordering 5000 units at the rate of 1,000 units per order during last year. The production cost is rupees 12 per unit- rupees 8 for materials and labor and rupees 4 overhead cost. It costs rupees 1500 to set up for one run of 1,000 units and inventory carrying cost is 20% of the production cost. Since this customer may buy at least 5,000 units this year, the company would like to avoid making five different production runs. Determine the most economic production run.

Section II

- Long Answer type questions. Answer any three. 3 x 10 = 30**
- The earning per share of a company are rupees 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used:
 - i) What should be the optimum payout ratio of the firm?
 - ii) What would be the price of the share at this payout?
 - iii) How shall the price of the share be affected if a different payout were employed?
 - "The primary purpose for which a firm exists is the payment of dividend. Therefore, irrespective of the firms need and the desires of the shareholders, a firm should follow policy of very high dividend payout". Do you agree? Why or why not? Explain.
 - Distinguish between the weighted average cost of capital and the marginal cost of capital. Recommend which one should be used in capital budgeting and valuation of the firm and why?
 - Discuss the concept of working capital cycle and cash conversion cycle? Why are these concept important in Working Capital Management? Give an example to illustrate your answer
 - What is a selective control of inventory? Why is it needed? Illustrate with an example and graph of the ABC analysis.

Section III

Application based questions. Answer any one.

1 x 20 = 20

7. Assume that a firm pays tax at a 50 percent rate, measure the after tax of capital in the following cases
 - a. A perpetual bond sold at par, coupon rate of interest being 7%.
 - b. A 10 year, 8%, Rs. 1000 par bond sold at Rs.950 less 4% underwriting commission
 - c. A preference share sold at Rs. 100 with a 9% dividend and a redemption price of Rs. 110 if the company redeems it in 5 years
 - d. An ordinary Share selling at a current market price of Rs.120 and paying a current dividend of Rs. 9 per share, which is expected to grow at rate of 8%.
 - e. An ordinary share of a company which engages no external financing is selling for Rs. 50. The earning per share are Rs.7.50 of which 60% is paid in dividend. The company reinvest retained earnings at a rate of 10%.
8. Evaluate the strategic role of venture capital in developing entrepreneurship in a country? Also explain the need of venture capital in India.
9. A proforma cost sheet of a company provides the following data:

Particulars	Rupees
Cost (per unit):	
Raw materials	52.0
Direct labor	19.5
Overheads	39.0
Total cost (per unit)	110.5
Profit	19.5
Selling price	130.0

The following is the additional information available:

Average raw material in stock: one month; average material in process: half a month. Credit allowed by suppliers: one month; credit allowed to debtors: two months. Time lag in payment of wages: one and a half weeks. Overheads: one month. One fourth of sales are on cash basis. Cash balance is expected to be rupees 120,000. You are required to create a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.
