

JK Lakshmipat University Jaipur
INSTITUTE OF MANAGEMENT

End Term Examination, May 2025
BBA, Semester IV, 2024-2025

Roll No.....

FA1103: FINANCIAL MANAGEMENT

Time: 2 1/2 hours

Max. Marks: 40

Instructions to students:

1. Do not write anything other than your roll number on question paper.
 2. Mention all the assumptions for your answers clearly.
 3. Allowed to use non-scientific calculator
 4. Answer any 4 questions of 10 marks each.
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Q1. Calculate the level of EBIT at which the indifference point between the following financial alternatives will occur: (Lo1, 2)

- i. Ordinary Share capital of Rs. 10 lakh or 15% debentures of Rs. 5 lakh and ordinary share capital of Rs. 5 lakhs.
- ii. Ordinary Share capital of Rs. 10 lakh or 13% preference share capital of Rs. 5 lakh and ordinary share capital of Rs. 5 lakhs.
- iii. Ordinary share capital of Rs. 10 lakh or ordinary share capital of Rs. 5 lakh, 13% preference share capital of Rs. 2 lakh and 15% debenture of Rs. 3 lakhs
- iv. Ordinary Share Capital of Rs. 6 lakh and 15% debenture of Rs. 4 lakh or ordinary share capital of Rs. 4 lakh, 13% preference share capital of Rs. 2 lakh and 15% debentures of Rs. 4 lakhs.
- v. Ordinary share capital of Rs. 8 lakh and 13% preference share capital of Rs. 2 lakh or ordinary share capital of Rs. 4 lakh, 13% preference share capital of Rs. 2 lakh and 15% debentures of Rs. 4 lakhs.

Q2. AB Ltd needs Rs. 10 lakhs for expansion. The expansion is expected to yield an annual EBIT of Rs. 1,60,000. In choosing a financial plan, AB Ltd. has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,00,000, or Rs. 4,00,000 or Rs.6,00,000. The current market price per share is Rs. 25 and is expected to drop to Rs. 20 if the funds are borrowed in excess of Rs. 5,00,000. Funds can be borrowed at the rates indicated below: (a) up to Rs. 1,00,000 at 8%, (b) over Rs. 1,00,000 up to Rs. 5,00,000 at 12%; (C) over Rs. 5,00,000 at 18%.

Assume a tax rate of 50%. Determine the EPS for the three financing alternatives and comment. (Lo 2, 3)

Q3. X company has a net operating income of Rs. 2,00,000 on an investment of Rs. 1,00,000 in assets. It can raise debt at a 16% rate of interest. Assume that taxes do not exist. (Lo3)

- a) Using the Net Income approach and an equity capitalization rate of 18%, compute the total value of the firm and the weighted average cost of capital if the firm has (i) no debt (ii) Rs.3,00,000 debt, (iii) Rs. 6,00,000 debts.
- b) Using the Net operating income approach and an overall capitalization rate of 12%, compute the total value of the firm, value of shares and the cost of equity if the firm has (i) No debt, (ii) Rs. 3,00,000 debt, (iii) Rs. 6,00,000 debts.

Q4. The following information has been extracted from the records of a company. Product cost sheet per unit: (Lo 5)

Raw material	Rs. 45
Direct Labour	Rs. 20
Overhead	Rs.40
Tota	Rs.105
Profit	Rs.15
Selling price	Rs. 120

- i. Raw materials are in stock on average for two months.
- ii. The materials are in process on average for one month. The degree of completion is 50% in respect of all elements of cost.
- iii. Finished goods stock on an average is for one month.
- iv. Time lag in payment of wages and overheads is $\frac{1}{2}$ months.
- v. Time lag in receipt of proceeds from debtors is 2 months.
- vi. Credit allowed by suppliers is one month.
- vii. 20% of the output is sold against cash.
- viii. The company expects to keep a cash balance of Rs. 1,00,000.

The company is poised for a manufacture of 1,44,000 units in the next year.

You are required to prepare a statement showing the working capital requirements of the company.

Q5. RST Ltd has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes declaring a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs is 12%. What will the market price of the share at the end of the year be, if

- i. A dividend is not declared.
- ii. A dividend is declared.
- iii. If the company pays dividend and has net profits of Rs. 5,00,000 and make new investment of Rs. 10,00,000 during the period, how many new shares must be issued? Use the MM model. (Lo 4)

Q6. Answer the below questions of 5 marks each.

- i. What are the assumptions which underline Gordon's model of dividend effect? Does the dividend policy affect the value of the firm under Gordon's model?
- ii. Explain the traditional theory of capital Structure.

all the best!