

JK Lakshmipat University Jaipur
INSTITUTE OF MANAGEMENT

End Term Examination, MAY 2022
BBA SEM IV (2020-2023)

Roll No.....

FA1103: FINANCIAL MANAGEMENT

Time: 3 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. Use of Non Scientific calculator is allowed.
4. Answer any 4 questions of 10 marks each.

Q.1(A) "The important issue in dividend decision is whether the dividend payout affects the overall value of the firm or not" In light of this discuss the walter's model of dividend decision making and highlight the criticism against his model. (5 Marks). Lo 5

Q.1(B) The earning per share of a company is Rs. 12 and the rate of capitalization applicable to the company is 10 percent. The company has three options (1) adopting a payment ratio of 25 percent, (2) 50 percent and (3) 75 percent. Using Walter's model of dividend payout, Compute the market value of the company's share if the productivity of retained earnings is (1) 15 percent (2) 10 percent and (3) 5 percent. (5 marks) Lo 5

Q. 2 The Board of Directors of Manvi Engineering Company Ltd, requests you to prepare a statement showing the working capital requirements for a level of activity of 1,56,000 units of production. The following information is available for your calculations. Lo3

Details	Per Unit Rs.
Raw materials	90
Direct Labour	40
Overheads	75
Total Cost	205
Profit	60
Selling Price	265
i. Raw materials are in stock, on average of one month	
ii. Materials are in process, on average 2 weeks	
iii. Finished Goods are in stock, on average of one month	
iv. Credit allowed by Suppliers is one month	
v. Time lag in payment from debtors 2 months	
vi. Lag in payment of wages is 1 1/2 weeks	
vii. Lag in payment of overheads is one month	
20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.	

- Q. 3 “Does Capital Structure have any impact on firm value” Highlight the divergent school of thoughts on the relevance and irrelevance of capital structure. Lo4
- Q. 4 X Co. has a EBIT of Rs. 2,00,000 on an investment of Rs. 10,00,000 in assets. It can raise a debt at a 16 percent rate of interest. Assume that taxes do not exist. Lo4
- a. Using the NI approach and an equity capitalization rate of 18 percent, compute the total value of the firm and the weighted average cost of capital if the firm has –
- i. no debt,
 - ii. 3,00,000 debt
 - iii. 6,00,000 debt
- b. Using NOI approach and overall capitalization rate of 12 percent, compute the total value of the firm, value of shares and the cost of equity if the firm has –
- i. no debt,
 - ii. 3,00,000 debt
 - iii. 6,00,000 debt
- Q. 5 A Company is considering as to which of the two mutually exclusive projects it should undertake. The finance director thinks that the project with higher NPV should be chosen whereas the managing director thinks that the one with the higher IRR should be undertaken, especially as both projects have same initial outlay of INR 200 million and length of life. The company anticipates a cost of capital of 10 percent and the net after tax cash flows of the project are 35 million, 80 million, 90 million, 75 million for the next 5 years of project A and INR 50 million, 90 million, 80 million, 75 million and 10 million for the next 5 years for project B. Lo 1, 2 & 3
1. Determine NPV and IRR of each project.
 2. State, giving reasons, which project would you recommend.
 3. Explain the inconsistency in ranking of two projects, if any.

all the best!

Table C: Present Value Factor of a Lump Sum (PVF) of \$1

Year	Interest Rate													
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.961	0.924	0.898	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.905	0.820	0.744	0.678	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.206
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020
40	0.672	0.453	0.307	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005
50	0.608	0.372	0.228	0.141	0.087	0.054	0.034	0.021	0.013	0.009	0.005	0.003	0.002	0.001

(Contd...)

