

JK LakshmiPat University Jaipur
INSTITUTE OF MANAGEMENT
End Term & Backlog Examination, Apr, 2024
BBA Semester IV, 2022-2025

Roll No.....

FA1103- Financial Management

Time: 2.5 hours

Max. Marks: 40

Instructions to students:

- Do not write anything other than your roll number on question paper.
- Mention all the assumptions for your answers clearly.
- You can use Non-scientific Calculator.

Answer any 4 questions from given below of 10 marks each.

Q1. A Company has the following long term capital outstanding as on 31st March 2024- (Lo:3, L0:5)

a) 10 percent debentures with a face value of Rs. 5,00,000. The debentures were issued in 2017 and are due on 31st March 2024. The current market price of a debenture is Rs. 950.

b) preference shares with a face value of Rs. 4,00,000. The annual dividend is Rs. 6 per share. The preference shares are currently selling at Rs. 60 per share.

c) Sixty thousand ordinary shares of Rs. 10 par value. The share is currently selling at Rs. 50 per share. The dividend per share for the past few years are as follows-

Year	Rs.	Year	Rs.
2017	2.00	2021	2.80
2018	2.16	2022	3.08
2019	2.37	2023	3.38
2020	2.60	2024	3.70

Assuming a tax rate of 35 percent, compute the firm's weighted average cost of capital.

Q2. A company has assets of Rs. 10,00,000 financed wholly by equity share capital. There are 1,00,000 shares outstanding with a book value of Rs. 10 per share. Last year's profit before tax was Rs. 2,50,000. The tax rate is 35 percent. The company is thinking of an expansion program that will cost Rs. 5,00,000. The financial manager considers the three-financing plan: (i) selling 50,000 shares at Rs. 10 per share, (ii) borrowing Rs. 5,00,000 at an interest rate of 14 per cent, or (iii) selling Rs. 5,00,000 of preference shares each of Rs. 1 with a dividend rate of 14 per cent. The profit before interest and tax are estimated to be Rs. 3,75,000 after expansion.

You are required to calculate-

- a) The earning per share, and
- b) The rate of return on shareholder's equity for each of the three financing alternatives.
- c) Also, suggest which alternative should be accepted by the firm. (Lo4, Lo2)

Q3. XyZ manufacturing co. has a total capitalization of Rs. 10,00,000 and normally earns Rs. 1,00,000 (before interest and taxes). The financial manager of the firm wants to take a decision regarding the capital structure. After a study of the capital market, he gathers the following data:

Amount of Debt	Interest rate	Ke %
0	-	10.00
1,00,000	4.0	10.50
2,00,000	4.0	11.00
3,00,000	4.5	11.60
4,00,000	5.0	12.40
5,00,000	5.5	13.50
6,00,000	6.0	16.00
7,00,000	8.0	20.00

- What amount of debt should be employed by the firm if the traditional approach is held valid?
- If the Modigliani-Miller approach is followed, what should be the equity capitalization rate?

Assume the corporate taxes do not exist, and that the firm always maintains its capital structure at book values.(Lo3)

Q4. The management of Roya Industries has called for a statement showing the working capital to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above-mentioned activity level is detailed below-

	Cost per unit
Raw material	Rs. 20
Direct Labor	Rs. 5
Overheads	<u>Rs. 10</u>
Total cost	Rs. 35
Profit	Rs. 15
Selling price	Rs. 50

Additional information-

- Minimum desired cash balance is Rs. 20,000
- Raw materials are held in stock, on an average, for two months.
- Work in progress (assume 50% completion stage for all components) will approximate to $\frac{1}{2}$ month's production.
- Finished goods remain in warehouse, on an average for a month.
- Suppliers of materials extend a month's credit and debtors are provided two months credit. Cash sales are 25% of total sales.
- There is a time lag in payment of Wages of a month and $\frac{1}{2}$ month in the case of overheads.

From the above facts, you are required to prepare a statement showing working capital requirements of the firm.(Lo5)

Q5. Answer any two from the following of 5 marks each.

- a) Explain the factors considered while determining the need for working capital. (L02)
- b) What are the assumptions and implications of NOI approach? Is there an optimal capital structure as per NOI approach? (Lo1, Lo2)
- c) Explain the concept of Financial Leverage. Examine the impact of financial leverage on the EPS. Does the financial leverage always increase the EPS?(Lo1, Lo3, Lo4)

all the best!