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Roll No. ....

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BBA - IV Sem.

**18056**

**B. B. A. Examination, June 2014**

**Financial Management**

**(BBA-402)**

**(New)**

*Time : Three Hours]*

*[Maximum Marks : 75*

*Note : Attempt questions from all Sections as per instructions.*

**Section-A**

**(Very Short Answer Questions)**

Attempt all the *five* questions. Each question carries 3 marks. Very short answer is required not exceeding 75 words.  $3 \times 5 = 15$

1. Distinguish between traditional and modern approach of finance function.
2. How can you assess financial requirements of an Enterprises ?
3. Explain briefly the opportunity cost concept of cost of capital.

4. Explain the remedies of overcapitalization.
5. Write a short note on importance of working capital.

**Section-B**

**(Short Answer Questions)**

Attempt any *two* questions out of the following three questions. Each question carries  $7\frac{1}{2}$  marks. Short answer is required not exceeding 200 words.  $7\frac{1}{2} \times 2 = 15$

6. Describe the urgency method of capital budgeting in brief.
7. What do you understand by dividend policy ?
8. Explain the disadvantages of excessive working capital.

**Section-C**

**(Detailed Answer Questions)**

Attempt any *three* questions out of the following five questions. Each question carries 15 marks. Answer is required in detail.  $15 \times 3 = 45$

9. Describe the Modigliani and Miller-Irrelevance theory.

**18056**

(3)

10. The capital structure of a company and its specific costs are given below. Find out simple and the weighted average cost of capital of the company :

Sources	Amount (₹)	Specific Cost
Long-term debts	15,00,000	4% (after tax)
Preference shares	10,00,000	12%
Equity shares	20,00,000	15%
Retained earnings	5,00,000	15%
	<u>50,00,000</u>	

11. Compute working capital needs of a borrower on the basis of the following information :

Expected level of production	22,000 tons
Raw material inventory	4 weeks
Processing period	2 weeks
Permanent material in process	200 tons
Finished goods in stock	6 weeks
Credit allowed to customers	8 weeks
Expected ratio of materials to sale price	72%
Wages and overheads	22%
Selling price per ton	₹ 3,000

12. Mittal Tubes Ltd. is considering whether or not to go for a lock-box system. The cost of the system is expected to be ₹ 1.50 per cheque. The average cheque size will be ₹ 6,000. The firm can invest in the funds received earlier by using the lock-box system in the

(4)

money market instruments earning a return of 8% per annum. How much should be the reduction in the cheque collection time for the company to be able to accept the decision about the lock-box ? Assume 360 days a year.

13. Estimate the cash requirement of Meerut Fruit Co. Ltd. for June, 2014 on the basis of data given below :

(i) Sales :

February, 2014 ₹ 25,000

March, 2014 ₹ 20,000

April to June, 2014 ₹ 30,000 per month

Roughly half the sales are for cash. 90% of credit sales are collected in the month following the month of sale and the balance one month later.

(ii) Fruits are always bought for cash to avail of the cash discount of 5%. The purchase budget for the second quarter (April to June) was 15,000 baskets per month at ₹ 1 per basket.

(iii) Wages and salaries for the second quarter were budgeted at ₹ 5,000 per month.

(iv) Manufacturing and other expenses budget for the quarter :

Cash expenses ₹ 4,500

Depreciation ₹ 7,500

Selling expenses ₹ 3,000

Administration

expenses ₹ 2,000 (in April & May only)