Paper Code: BBA3306

School of Management, BBD University

Course: IMBA2 Sem: IV

Even Sem Second Sessional Test Paper (2023-24)

Subject: Financial Management

Time: 3 Hours Max. Marks: 60

SECTION-A

Q1. Attempt **ALL PARTS** of the following: (8*1=8)

a. What is mutual funds?
b. Explain finance function?
c. Define internal rate of return?
d. What do you mean by profitability index?
e. Explain working capital management?
f. What is WACC?
g. Define over capitalization?
h. What is EBIT?

SECTION-B

Q2. Attempt **ANY TWO** parts of the following: (2*6=12)

a. Explain the concept of time value of money?
b. What is the difference between PI and IRR?
c. Explain the significance of cost of capital?
d. A company requires Rs.20,00 000 to fiancé its operations. Financing options are:
a) Equity 2,00,000 shares @Rs.10 per share=Rs20,00,000
b) Equity 1,00,000 shares @Rs. 10 per share=Rs.10,00,000 and debt @6% per annum=Rs10,00.000
Which option should the firm go with if it's EBIT is Rs. 4,50,000 and tax is to be paid @10%

SECTION-C

Q3. (Attempt any **TWO PARTS** from the following) (2*5=10)

a. What are the finance functions? Explain.
b. Differentiate between shares and debentures.
c. Explain the scope of financial management?

Q4. (Attempt any **TWO PARTS** from the following) (2*5=10)

a. Explain internal rate of return?
b. One of your friends needs Rs.1000 now and promised to pay you back Rs.1000 in year. Is that a fruitful investment when you can invest at 20% elsewhere?
c. Describe the objectives of capital budgeting?

Q5. (Attempt any **TWO PARTS** from the following) (2*5=10)

a. What do you mean by CAPM? Explain the CAPM model.
b. Differentiate between working capital management and cost of capital?

c.

The Capital structure of Vikas Ltd. is as follows :

Source	Book value	Market value
a. Equity share capital	10,00,000	20,00,000 (200% of Book value)
b. Retained earnings	5,00,000	—
c. 14% Preference share capital	7,00,000	7,00,000 (Just par)
d. 12% Debentures	6,00,000	6,00,000 (Just par)

After tax, cost of capital of these different sources is Equity share capital 18%, Retained earings 15%, Preference share capital 14%, and Debentures 8%. Calculate the weighted average cost of capital of the company.

Q6. (Attempt any **TWO PARTS** from the following) (2*5=10)

a. What is capital structure? Explain capital structure determinants.

b. Differentiate between under and optimal capitalization?

c.

A company requires Rs 30, 00,000 to finance its operations. Financing options are:

a.) Equity 3,00,000 shares @ Rs 10 per share= Rs 30,00,000

b.) Equity 2, 00,000 shares @ Rs 10 per share = Rs 20, 00,000 and debt @ 10% per annum = Rs 10,00,000.

c.) Equity 1, 00,000 shares @ Rs 10 per share = Rs 10, 00,000 and debt @ 10% per annum = Rs 20,00,000.

Rate of return is 6.67%, Earning before interest and taxes (EBIT) = 2,00,000 and Tax Rate = 30%