

Unit IV

8. In Walter's approach, the dividend policy of a firm depends on availability of investment opportunity and the relationship between the firm's internal rate of return and its cost of capital. Explain, what are the shortcomings of this view ? Discuss. **14**
9. "Average age of receivables is an important yardstick of testing the efficiency of receivables management." Explain. **14**

Roll No.

Exam Code : J-19

Subject Code—0776

B. B. A. (Second Year) EXAMINATION

(For Lateral Entry Batch 2018 Onwards)

FINANCIAL MANAGEMENT

BBA-205

Time : 3 Hours

Maximum Marks : 70

Note : Attempt *Five* questions in all, selecting *one* question from each Unit in addition to compulsory Q. No. 1.

1. Describe the following :

- (i) Financial management
- (ii) ARR
- (iii) Trading on equity
- (iv) Specific cost *versus* composite cost

- (v) Capital rationing
- (vi) EPS-EBIT analysis
- (vii) Management of cash. 7×2

Unit I

2. “Finance function is concerned with allocation funds to specific assets and obtaining the best mix of financing in relation to the overall valuation of the firm.” Comment. 14
3. When can there the conflict between owners and management’s goals ? How wealth maximization takes care of this ? Explain. 14

Unit II

4. Under the circumstances may NPV and IRR give conflicting recommendations ? Which criteria should be followed in such circumstances and why ? Discuss. 14

5. Examine critically the different approaches for computing the cost of equity. Explain the merits and demerits of each. 14

Unit III

6. Distinguish between operating leverage and financial leverage. Do you think that they are related to capital structure ? Discuss. 14
7. A company’s current net operating income (EBIT) is ₹ 8,00,000. The company has ₹ 20 lakhs of 10% debt outstanding. Its equity capitalisation rate is 15%. The company is considering to increase its debt by raising additional ₹ 10 lakhs and to utilise these funds to retire the amount of equity. However, due to increased financial risk, the cost of entire debt is likely to increase to 12% and the cost of equity it 18%.
You are required to computer the market value of the company using traditional model and also make recommendations regarding the proposal. 14