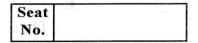
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B.B.A. (Part-III) (Semester-VI) Examination, March - 2014 FINANCIAL MANAGEMENT (Paper-II)

Sub. Code: 43965

Day and Date: Friday, 21-03-2014

Total Marks: 40

Time: 12.00 noon to 2.00 p.m.

Instructions:

1) All questions are compulsory.

2) Figures to the right indicate full marks.

Q1) ABC Company is considering to purchase a machine. Two machines, each costing Rs. 40,000 are available. Earnings after taxation but before charging depreciation are: [14]

| Year | Cash flows | | |
|------|-------------|-------------|--|
| as I | Machine 'X' | Machine 'Y' | |
| | Rs. | Rs. | |
| 1 | 12,000 | 8,000 | |
| 2 | 18,000 | 16,000 | |
| 3 | 20,000 | 24,000 | |
| 4 | 15,000 | 18,000 | |
| 5 | 10,000 | 14,000 | |

Evaluate two alternatives according to:

- a) Payback period method.
- b) Net present value method using 10% discounting factor.
- c) Profitability index method.

Present value of Re. 1 at 10% discounting factor is given below:

| Year | 1 | 2 | odr 3 m b | ni i 4 41 | ind c ate |
|--------------|-------|-------|------------------|------------------|------------------|
| p.v of Re. 1 | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

OR

What is Ratio Analysis? Write and explain any two ratios with their formulaes. Write the drawbacks of ratio analysis. [14]

Q2) Answer any Two of the following:

a) The following information is supplied to you

| Particulars | Rs. |
|--------------------------|-----------|
| Cash | 2,10,000 |
| Debtors | 3,30,000 |
| Stock | 12,30,000 |
| Plant & equipment | 16,95,000 |
| Total assets | 34,65,000 |
| Sundry creditors | 9,00,000 |
| 8% debentures | 5,00,000 |
| Equity share capital | 11,00,000 |
| Retained earnings | 9,65,000 |
| Total liabilities | 34,65,000 |
| Sales | 56,00,000 |
| Cost of goods sold | 40,00,000 |
| Other operating expenses | 8,00,000 |
| Interest expenses | 40,000 |
| Income taxes | 2,66,000 |
| Dividends | 1,00,000 |

Calculate:

- i) Current Ratio
- ii) Acid Test Ratio.
- iii) Debt Equity Ratio.
- iv) Stock Turnover Ratio.
- b) The ABC Company has the following specific cost of capital along with the indicated book and market value weights.

| Type of capital | Cost | Book value weights | Market value weights |
|-------------------|------|--------------------|----------------------|
| Equity shares | 0.18 | 0.50 | 0.58 |
| Preference shares | 0.15 | 0.20 | 0.17 |
| Long term debt | 0.07 | 0.30 | 0.25 |
| | | 1.00 | 1.00 |

Calculate the weighted cost of capital, using book and market value weights.

E-127

- c) What is capital structure? Explain net operating income approach.
- d) What is cost of capital? Explain in brief specific cost of capital with illustration.
- Q3) Write short notes (Any Two):

[10]

- a) Commonsize Statements.
- b) Internal Rate of Return Method.
- c) Trend Analysis.
- d) Profitability Ratios.
