UNIVERSITY OF NORTH BENGAL

BBA Honours 3rd Semester Examination, 2020

CC7-BBA (303)

FINANCIAL MANAGEMENT

Full Marks: 60

ASSIGNMENT

The figures in the margin indicate full marks.
Candidates should answer in their own words and adhere to the word limit as practicable.
All symbols are of usual significance.

Answer any *two* assignments from the following 30×2 = 60

1. Suppose you are the financial head of a leading public limited company. You have been hired based on your enormous knowledge and capability in the field of finance. Holding such a crucial position, how would you explain the nature and scope of the knowledge of financial management that you have gained so far? Due to an upcoming giant project, you are also on the verge of evaluating financial viability of a few alternatives. As a need of the hour, enumerate at least five capital budgeting techniques used for evaluating financial viability of project alternatives and present in front of the Chief Executive Officer. 30

2. (a) The Gama Ltd. is considering the purchase of a new machine. Two alternatives machines (A and B) have been suggested, each costing Rs. 4,00,000. Earnings after taxation are expected to be as follows: 20+10

Year	Machine A	Machine B
1	Rs. 40,000	Rs. 1,20,000
2	Rs. 1,20,000	Rs. 1,60,000
3	Rs. 1,60,000	Rs. 2,00,000
4	Rs. 2,40,000	Rs. 1,20,000
5	Rs. 1,60,000	Rs. 80,000

The company has a target return on capital of 10% and on this basis, you are required to compare the profitability and state which alternative you consider financially preferable using the capital budgeting techniques of Net Present Value and Profitability Index. The present value of Re. 1 @ 10%:

Due in 1 year = 0.91

Due in 2 year = 0.83

Due in 3 year = 0.75

Due in 4 year = 0.68

Due in 5 year = 0.62

(b) A project of Rs. 20,00,000 yielded annually a profit of Rs. 3,00,000 after depreciation @ 12.5% and is subject to income tax @ 50%. Calculate payback period.

3. (a) The following is the capital structure of a Limited Company: 10+20

Sources of Finance	**Amount** (Rs.)	**Proportion (%)**	**Cost after tax (%)**
Equity Share Capital (4000 shares of Rs. 100 each)	4,00,000	40	14
Retained earnings	2,00,000	20	13
Pref. Share Capital	1,00,000	10	12
Debt	3,00,000	30	9

Calculate the weighted average cost of capital of the company.

(b) A company's capital structure consists of the following:

Equity Share of Rs. 100 each	Rs. 20 lakh
Retained earnings	Rs. 10 lakh
9% Preference Shares	Rs. 12 lakh
7% Debentures	Rs. 8 lakh

The company earns 12% on its capital. The income tax rate is 50%. The company requires a sum of Rs. 25 lakh to finance its expansion programme for which the following alternatives are available to it.

(i) Issue of 20,000 equity shares at a premium of Rs. 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debentures financing would be 21.4, 17 and 15.7 respectively.

Which of the three financial alternatives would you recommend and why?

——×——