13. A company is considering a most desirable capital structure. The cost of debt (after tax) and of equity capital at various levels of debt equity mix are estimated as follows -

Debt as percentage of total capital employed	Cost of debt (%)	Cost of equity (%)
0	10	15
20	10	15
40	12	16
50	13	18
60	14	20

Determine the optimal mix of debt and equity for the company by calculating composite cost of capital.

—x—

BBA-13

BBA Year Examination June, 2015

Financial Management

Time : Three Hours] *[Max. Marks : 80*

Note: The Question paper is divided into three sections A, B and C. Write Answers as per given instructions.

Section-A

(Very Short Answer Questions)

Note: Answer all questions. As per the nature of the question delimit your answer in one word, one sentence or maximum upto 50 words. Each question carries 2 marks. 8×2=16

1. (i) Define Financial Management.
   (ii) Define Analysis of Financial Statement.
   (iii) What do you understand by Cash Flow Statement?
   (iv) Define Working Capital.
   (v) Define Capital Budgeting.
   (vi) What is operating levarage?
   (vii) Define capital structure.
   (viii) What are term loans?

Section-B

(Short Answer Questions)

Note: Answer <u>any</u> 4 questions. Each answer should not exceed 100 words. Each question carries 8 marks.
4×8=32

2. Discuss the utility and importance of financial statements for the various parties interested in a business concern.

3. What are the advantages of ratio analysis?

4. What do you mean by 'Economic order quantity'? How is it determined?

5. What is Baumol Model of Cash Management?

6. Explain the concept "Cost of retained earnings".

7. Explain various type of dividend.

8. What is the difference between favorable & unfavorable financial leverage?

9. How does the cost of capital behave with leverage under traditional and M M approach?

Section-C

(Long Answer Questions)

Note: Answer <u>any two</u> questions. You have to delimit your answer maximum upto 800 words. Each question carries 16 marks.
2×16=32

10. Vimal Ltd. issued 50,000, 12% preference share of Rs. 100 each at 10% premium. The cost of issue was Rs. 4 per share. These share are redeemable at par after 6 year from date of issue. Corporate tax rate applicable to this company is 35%. Compute pre and post tax cost of preferance shares.

11. X Ltd. earns Rs. 10 per share is capitalized at 10% and has a return on investment of 15% formula, determine - (1) the optimum payout (2) the price of share at this payout.

12. A company has sales of Rs. 2,00,000. The variable costs are 40% of the sales and fixed operating expenses are amount to Rs. 60,000. The amount of interest on long term loan is Rs. 20,000.

    You are required to calculate the operating leverage and composite leverage.