Roll. No. ________

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Shree Damodar College of Commerce & Economics, Margao-Goa

TY B.Com, Semester-VI(CBCS), Repeat Semester End Examination, November 2022

Business Management (DSE 5)

Financial Management II UCOD119

Duration: 2hrs **Max Marks: 80**

Instructions:

1) **Start each question on fresh page.**
2) **Figures to the right indicate maximum marks.**
3) **Question No.1 is Compulsory.**
4) **Answer any three questions from Q. No. 2 to Q. No.6.**
5) **All Questions carry equal marks.**
6) **Enter the appropriate main & sub-questions numbers in the answer- book**

Q.1) Write short notes on any four: **(4 x 5marks = 20 marks)**

a) Cost of retained earnings.

b) Average Rate of Return Method

c) M.M. Hypothesis (Modigliani and Miller)

d) Explicit cost and implicit cost

e) Project classification

f) Optimum Capital Structure

Q.2) a) The present market price of a company's share is Rs 60 and dividend per share is Rs 4.50. If the 7% p.a growth in the dividend is expected then what will be the cost of equity capital? **(5 marks)**

b) Gaurish Ltd. issues 50000, 10 % preference shares of Rs. 100 each at par, redeemable after 10 years at a premium of 5%. The cost of issue is Rs. 2 per share. Calculate cost of preference share capital. **(5 marks)**

c) A company has obtained capital from the following sources, the specific costs are also noted down against them

Sources	Book Value (Rs)	Cost of Capital
Debentures	4,00,000	5%
Preference Share capital	1,00,000	8%
Equity Share capital	6,00,000	13%
Retained Earnings	2,00,000	9%

You are required to calculate WACC using Book Value

d) Explain the importance of capital budgeting decision **(5 marks)**

Q.3. A company is considering expanding its production. It can go either for Automatic machine costing Rs 22,40,000 with an estimated life of 5 years or an Ordinary machine costing Rs 6,00,000 having an estimated life of 8 years. The Annual Sales and Costs are estimated as follows

Particulars	Automatic Mach	Ordinary Mach
Sales	15,00,000	15,00,000
Costs:		
Material	5,00,000	5,00,000
Labour	1,20,000	6,00,000
Variable cost	2,40,000	2,00,000

The company is subjected to tax rate of 50%. Calculate PBP.

Find out the most profitable investment based
i) Payback period method and
ii) ARR.

(15 marks)

b) Explain the feature of Capital Structure. **(5 marks)**

Q.4.a) Reliable India Ltd., is considering purchase of a machine. Two machines 'A' and 'B' are available, the details of which are given below. You are required to advise the company as to which machine is more profitable using Net Present Value Method and Profiability Index Method

	Machine 'A'	Machine 'B'
Cost of machine	Rs. 5,00,000	Rs. 5,00,000
Year	Cash inflow (Rs.)	
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	1,70,000

The discounted value of a rupee for year 1 to 5 is given below:

Year	1	2	3	4	5
NPV@ 10%	0.909	0.826	0.751	0.685	0.620

(10 marks)

b) IPL company's equity share is currently selling at Rs 350.75 and it is paying dividend of Rs 5.25 per share. The dividend is expected to grow at 15% p.a for one year. Income tax rate is 40% and brokerage is 2%. Calculate Kr. **(5 marks)**

c) A company issues 12% debentures of Rs 5,00,000 at a premium of 5%, redeemable after 10 years at par and incurs Rs 10,000 as issue expenses. Calculate cost of debt. **(5 marks)**

Q.5 a) Explain the determinants of the dividend policy of a company. **(10 marks)**

b) Explain the approaches adopted in the computation of cost of equity. **(10 marks)**

Q.6. a) Explain in detail the process of Capital budgeting. **(10 marks)**

b) Explain how the dividend policy affects the value of the firm under Gordon's Model" **(10 marks)**