Roll. No. ________

Vidya Vikas Mandal's
Shree Damodar College of Commerce & Economics, Margao-Goa
TY B.Com, Semester-VI(OC-66), Semester End Examination, April/May 2023
Business Management (DSE 5) (Truncated Syllabus 2021-22)
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) From the following capital structure you are required to calculate the Weighted Average Cost of Capital using the market value weights.

Sources of funds	Market value in Rs	After tax cost of capital
Equity share capital	7,50,000	17%
Preference share capital	2,30,000	14%
Debentures	2,70,000	8%

(5 marks)

b) The current market price of equity shares is Rs. 180/- and the current dividend per share is Rs. 13.5/- The Shareholders have to incur 2% of the net dividends received by them as brokerage cost for making new investments and they fall in 40% tax bracket. Calculate the cost of retained earnings. **(5 marks)**

c) Myra Ltd. issued 10,000 ten years 8% debentures at Rs. 100 each at 4% discount. These debentures are to be redeemed after 10 years at 5% premium cost of issue is 2%. Corporate tax rate is 50%. Calculate after tax cost of debt. **(5 marks)**

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

Q.3. a) 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) Rockstar Ltd., is considering purchase of a machine. Two machines 'X' and 'Y' are available, the details of which are given below. You are required to advise the company as to which machine is more profitable using Profitability Index and Net Present Value Method.

	Machine 'X'	Machine 'Y'
Cost of machine	Rs. 6,00,000	Rs. 6,00,000
Year	Cashflows after tax (Rs.)	
1	2,70,000	2,20,000
2	3,20,000	2,70,000
3	3,70,000	3,20,000
4	2,20,000	4,20,000
5	2,70,000	3,20,000

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

Year	1	2	3	4	5
NPV@ 10%	0.91	0.83	0.75	0.68	0.62

(10 marks)

b) Y ltd issues 50,000 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's current earnings are Rs 1,25,000 to be distributed among 8000 shares. The market price of each share is Rs 150 and the growth rate of dividend is estimated at 9%. Compute the cost of equity capital.
(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) Define capital budgeting. Explain the process of capital budgeting. **(10 marks)**

b) Does dividend policy affect the value of the firm under M. M. model? Explain.
(10 marks)