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Vidya Vikas Mandal's
Shree Damodar College of Commerce & Economics, Margao-Goa
TY B.Com, Semester-VI(OC-66), Semester End Examination, June 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) Walter's model of dividend
b) Cost of Preference share capital
c) Average Rate of Return method
d) Importance of Capital Structure
e) Meaning of dividend policy
f) Explicit cost and implicit cost

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) Calculate Average Rate of Return and Pay Back Period of the projects A & B. Suggest which project should be undertaken?

Particulars	Project A	Project B
Investment	Rs.4,00,000	Rs.6,00,000
Life	4 years	5 years
Scrap value	Rs. 40,000	80,000
Profits after depreciation and tax		
1st year	40,000	60,000
2nd year	30,000	60,000
3rd year	30,000	40,000
4th year	20,000	20,000
5th year		20,000

(15 marks)

b) Explain Gordon's model of Dividend (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 various approaches of computing Cost of equity capital. **(10 marks)**

b) Explain the types and forms of dividends. **(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)**