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S.Y.BBA (FS) SEMESTER III, SEMESTER END ASSESSMENT, **Repeat April 2018**

FINANCIAL MANAGEMENT

Duration: 3 Hours **Max. Marks: 60**

Instructions:

- *Figures to the right indicate maximum marks.*
- *Start each question on a fresh page*
- *Question One is compulsory*
- *Answer any Four from question 2 to question 6*

Q.1.Write a short note on any five of the following: **(5*4=20)**

a) Goals of financial management.
b) Investment Decision
c) Operating Cycle method of Working Capital.
d) Types of dividend
e) Over Capitalization
f) Financial Leverage

Q.2.a Hindustan Aeronautics Ltd is considering the purchase of a machine.
Two machines are available in the market, automatic and ordinary machine. Each of these machine cost Rs. 1,00,000 each. Earnings after tax but before depreciation are expected to be as follows: **(06)**

YEAR	1	2	3	4	5
Cash Inflow of Machine automatic (Rs.)	25,000	37,500	50,000	25,000	12,500
Cash Inflow of Machine ordinary (Rs.)	12,500	37,500	50,000	37,500	25,000

Evaluate the two alternatives according to Pay Back Method and suggest the best alternative.

Q.2.b. A company issues 12% debentures of Rs.5,00,000 repayable after 10 years at a discount of 4% and incurs Rs.10,000 for underwriting, brokerage, etc. Corporate tax rate being 30%. Calculate the cost of debt capital before and after tax liability. **(04)**

Q.3.a PLM Software Solutions ltd has under consideration the following two projects. The details are as follows:-

PARTICULARS	PROJECT X	PROJECT Y
Investment in machinery	10,00,000	15,00,000
Working capital	5,00,000	5,00,000
Life	4 years	6 years
Scrap value	10%	10%
Tax rate	50%	50%

Income before depreciation and tax are as follows:-

YEAR	PROJECT X	PROJECT Y
1	8,00,000	15,00,000
2	8,00,000	9,00,000
3	8,00,000	15,00,000
4	8,00,000	8,00,000
5	-	6,00,000
6	-	3,00,000

Calculate Average rate of return. **(06)**

Q.3.b. Soltex Petroproducts Ltd issues 50,000, 10% preference shares of Rs.100 each redeemable after 10years at a premium of 5 %. The cost of issue is Rs.2 per share and corporate tax at 30%. Calculate the cost of preference share capital before and after tax liability. **(04)**

Q.4.a. From the following information of two projects and suggest which should be accepted assuming a discount rate of 10%. The Initial investment for Project X is Rs. 20,000 and for Project Y is Rs. 30,000 with an estimated life of 5 years for both projects. The scrape value is Rs. 1,000 and Rs.2,000 respectively due in the fifth year.

Profits before depreciation and after tax are as follows:

Years	Project X	Project Y	PV factor@10%
1	5,000	20,000	0.909
2	10,000	10,000	0.826
3	10,000	5,000	0.751
4	3,000	3,000	0.683
5	2,000	2,000	0.621

Calculate the Net present value of the projects and suggest the best proposal. **(06)**

Q.4.b. Purity Chemicals Ltd has its shares of Rs.10 each quoted on the stock exchange, the current price per share is Rs.24. the gross dividend per share over the last few years is Rs.1.60 at growing rate of 10%. Calculate the cost of equity shares. **(04)**

Q.5.a. Kaiser Pest Management Ltd are considering two different investment proposals

PARTICULARS	PROPOSAL A Rs	PROPOSAL B Rs
Investment cost	9,500	20,000
Estimated cash inflows at the end of		
Year 1	4,000	8,000
Year 2	4,000	8,000
Year 3	4,500	12,000

PV Values

YEAR	10%	12%	14%	15%	16%	17%	18%
1	0.9091	0.8929	0.8772	0.8696	0.8621	0.8547	0.8475
2	0.8265	0.7972	0.7695	0.7561	0.7432	0.7305	0.7182
3	0.7513	0.7118	0.6750	0.6575	0.6407	0.6244	0.6086

Calculate the Internal Rate of Return of the two proposals. **(06)**

Q.5.b. The following information is available:

Dividend per share	Rs.9
Personal Income tax rate	30%
Personal capital gain tax rate	20%
Market price per share	Rs.100

Calculate the cost of retained earnings. **(04)**

Q.6.a. Given is the information of two plants at 15% discounting ratio.

YEAR	PV Factor at 15%	Plant A Cash flows Rs.	Plant B Cash flows Rs.
0	1.000	(20,000)	(12,000)
1	0.870	9,500	6,000
2	0.756	11,000	7,400
3	0.658	10,000	5,600

You are required to rank the projects on the basis of Profitability Index method. **(06)**

Q.6.b. Following information is available with regards to the capital structure of Punjab ltd.

Sources of funds	Amount(Rs)	After tax cost of capital
Equity share capital	3,50,000	0.12
Retained earnings	2,00,000	0.10
Preference shares	1,50,000	0.13
Debentures	3,00,000	0.09

Calculate the Weighted average cost of capital. **(04)**

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