Vidya Vikas Mandal's

Shree Damodar College of Commerce & Economics Margao Goa

S.Y.BBA(FS), Sem. III, Semester-End Assessment, Repeat April 2019

Financial Management

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

Instructions:

- *Figures to the right indicate maximum marks.*
- *Question No. 1 is compulsory.*
- *Answer any FOUR from Question No. 2 to Question No. 6.*
- *Each question start on a fresh page.*

Q. 1. Answer any FIVE of the following: **(5x4=20 marks)**

a) Write a note on time value of money.
b) Explain different types of dividend.
c) Write a note on wealth maximisation.
d) Discuss any four causes of over-capitalisation.
e) Write a note on trading on equity.
f) State and explain any four factors determining working capital requirement.
g) Write a note on financial leverage.

Q. 2 a) ABC Company Limited is considering the purchase of a machine. Two machines are available in the market, machine A and machine B, each costing Rs. 100,000. Earnings after tax but before depreciation are expected to be as follows:

Year	1	2	3	4	5
Cash inflow Machine A (Rs.)	25000	37500	50000	25000	12500
Cash inflow Machine B (Rs.)	12500	37500	50000	37500	25000

Evaluate the two alternatives according to payback method and suggest the company which machine should be selected. **(06 marks)**

b) A Company issues 12% debentures of Rs. 500000 repayable after 10 years at a discount of 4% and incurs Rs. 10000 for underwriting, brokerage etc. Corporate tax rate being 30%. Calculate the cost of debt capital before and after tax. **(04 marks)**

Q. 3 a) Moon Limited has under consideration the following two projects. Details are as follows:

Particulars	**Project X**	**Project Y**
Investment in machinery	1000000	1500000
Working capital	500000	500000
Life	4	6
Scrap value	10%	10%
Tax rate	50%	50%

Income before depreciation and tax are as follows:

Year	**Project X (Rs.)**	**Project Y (Rs.)**
1	800000	1500000
2	800000	900000
3	800000	1500000
4	800000	800000
5	----	600000
6	----	300000

Calculate Accounting Rate of return. **(06 marks)**

b) A Company wishes to issue 1000, 9% preference shares at Rs. 100 each. The other expenses of capital issue are: underwriting 2%, brokerage 0.5%, printing Rs. 500. What will be the effect on cost of capital if present corporation tax on its earning coming to 30%. Calculate cost of capital before and after tax if issue has been made: **(04 marks)**

1) At Par Value
2) At a Premium of Rs. 6 per share

Q. 4 a) From the following information, calculate the NPV of the two projects and suggest which project should be accepted, assuming a discount rate of 10%.

Particulars	**Project X**	**Project Y**
Initial Investment	20000	30000
Estimated Life	5 Years	5 Years
Scrap Value	1000	2000

The profits before depreciation and after tax are as follows:

Year	1	2	3	4	5
Project X (Rs.)	6000	10000	10000	4000	3000
Project Y (Rs.)	20000	11000	6000	4000	3000

Note: The PV of Re. 1 @ 10% discount factor for first, second, third, fourth and fifth year is 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. Calculate Net Present value. **(06 marks)**

b) Sunshine Ltd. has its share of Rs. 10 each quoted on the stock exchange, the current price per share is Rs. 25. The gross dividend per share over the last 4 years is Rs. 1.70 growing at 15%. Calculate the cost of equity share. **(04 marks)**

Q. 5 a) A Company manager is considering three projects which are not mutually connected and any of them can independently be selected. The company has necessary funds but cannot take up more than one project. The overall cost of capital of the company is 10% and the expected cash flows from the project are given below:

		Cash flows (Income)				
Project No.	**Investment Required**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
I	10000	12000	3000	----	----	----
II	14000	----	----	10000	5000	7000
III	9000	----	4000	5000	5000	2000

10% discount factor for first, second, third, fourth and fifth year is 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. You are required to advice the management as to what project they should take up, give reason for your advice. Calculate Profitability Index. **(06 marks)**

b) Calculate the cost of retained earnings from the following information: **(04 marks)**

Current market price of a share Rs. 130.
Cost of floatation/brokerage per share 2% on market price.
Growth in expected dividend is 4%.
Expected dividend per share on new share is Rs. 13.
Shareholders marginal/personal income tax 21%.

Q. 6 a) A Company has to select one of the following two projects:

Particulars	Proposal A (Rs.)	Proposal B (Rs.)
Cost	11000	10000
Cash Inflow: Year 1	6000	1000
Year 2	2000	1000
Year 3	1000	2000
Year 4	5000	10000

Discount factors are as follows:

Year	1	2	3	4
10%	0.909	0.826	0.751	0.683
12%	0.893	0.797	0.712	0.636
15%	0.870	0.756	0.658	0.572

Using the IRR method suggest which project is preferable. **(06 marks)**

b) Book value weights: Following information is available with regard to the capital structure of Punjab Breweries Ltd.

Sources of Fund	Amount(Rs.)	After Tax Cost of Capital
Equity share capital	400000	0.12
Retained earnings	250000	0.10
Preference share capital	200000	0.13
Debentures	150000	0.09

You are required to calculate the weighted average cost of capital. **(04 marks)**

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