VidyaVikasMandal's

Shree Damodar College of Commerce & Economics Margao Goa

S.Y.BBA (FS), Semester-End Assessment, October 2016

Financial Management

Duration: 2 hours **Max. Marks: 60**

Instructions:

- ***Figures to the right indicate maximum marks.***
- ***Question one is compulsory.***
- ***Answer any Four from question 2 to question 6.***

Q1. Write a short note on any Five of the following :- **(5*4=20)**

a. Traditional approach to Financial Management.
b. Difficulties in Capital Budgeting.
c. Financial Leverage
d. Net Income Approach Theory
e. Working Capital
f. Time Value of Money

Q2.

a. AD limited is considering whether to purchase some special machines. Management does not want to invest unless the cost of the investment can be recovered in 3 years. The following information is available :
   - Cost of the machine Rs.300000/-
   - Sales revenue generated by new machine Rs.400000/
   - Variable cost is 60% of sales.
   - Annual fixed cost other than depreciation are Rs.15000/-
   - Life of the machine 8 years and Tax rate is 50%.

Based on the criterion of 3 years recovery period should the special machine be purchased? Support your answer with computation of Pay Back Period required for the investment of Rs.300000/- to be recovered. **(06)**

b. Shree Synthetics Ltd borrows Rs.200000/- from his bank for 3 months at an interest of 15%. The corporate tax rate for the company is 63%. The company is required by the bank to maintain 10% of the loan as minimum balance in the account. Compute the after tax annual cost of capital. **(04)**

Q3.

a. A project costs Rs.15000/- and has a scrap value of Rs.3000/-. Its streams of income before depreciation and tax during first five years is Rs.3000/, Rs.3600/-, Rs.4200/-, Rs. 4800/- and Rs.6000/-. Assuming tax rate at 50% and depreciation on straight line method calculate average rate of return for the project. **(06)**

b. A Limited company issues 11% preference share of Rs.100/- at par and the issue expenses per share comes to Rs.2/-. Calculate the cost of preference share. **(04)**

Q4.

a. Calculate the Net Present Value for which a project requires an initial investment of Rs.25000/- and involves a net cash inflow of Rs.12000/- each for 3 years. The cost of fund is 8% and there is no scrap value. The present value of Re.1 for 3 years at 8% discount factor is 0.926, 0.857 and 0.794, respectively. **(06)**

b. Madhukul Ltd issued 10000 equity shares of Rs.10/- each at a premium of Rs.2/- each. The company has incurred issue expenses of Rs.5000/-. The equity shareholders expect the rate of dividend to be 18% p.a. calculate the cost of equity share capital. Also calculate cost of equity share capital if the current market price of share is Rs.21/-. **(04)**

Q5.

a. A Project costs an initial investment of Rs.40000/- and is expected to generate annual cash inflow of Rs.16000/- for 4 years. Calculate internal rate of return. **(06)**

Present value of Re.1varing discount rate for a period of four years is as follows:

Year	19%	20%	22%
1	0.8403	0.8333	0.8196
2	0.7062	0.6944	0.6716
3	0.5934	0.5787	0.5507
4	0.4987	0.4823	0.4514

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

Dividend per share	Rs.15/-
Personal income tax rate	30%
Market price per share	Rs.110/-
Brokerage on investment of dividend	1%

Q6.

a. The initial cash outlay of a project is Rs.50000/- and it generates cash inflow of Rs.20000/-, Rs.15000/-, Rs.25000/- and Rs.10000/- in first four years. Using present value index method appraises profitability of proposed investment assuming 10% rate of discount. The present value of Re.1 for 5 years at 10% discount factor is 0.909, 0.826, 0.751, 0.683 and 0.621 respectively. **(06)**

b. Following information is available with regards to the capital structure of Rajasthan Breweries Ltd.

Source of fund	Amount (Rs)	After tax cost of capital
Equity share capital	350000/-	0.12
Retained earnings	200000/-	0.10
Preference share capital	150000/-	0.13
Debentures	300000/-	0.09

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

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