Vidya Vikas Mandal's

Shree Damodar College of Commerce & Economics, Margao- Goa

Second Year BBA (FS) – Semester III, End Semester Examination (Repeat), October 2016

FINANCIAL MANAGEMENT

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

Instructions:

- ***Figures to the right indicate maximum marks***
- ***Start each new question on a fresh page***
- ***Question 1 is compulsory***
- ***Answer any FOUR from Q2 to Q6***

Q1. Write a short note on any **Four** from the following: - **(4*3=12)**

a. Profit Maximisation

b. Time Value of Money

c. Diversification Projects

d. Undercapitalisation

e. Operating Leverage

Q2.

a. Define Financial Management. Discuss the scope of Financial Management. **(06)**

b. Sunshine Ltd is considering a proposal for the investment of Rs 500000/-on a product development, which is expected to generate net cash inflows for the years as under.

Year	Net cash flows	PV Factor at 15%
1	----	0.87
2	100000	0.76
3	160000	0.66
4	240000	0.57
5	500000	0.50
6	600000	0.43

Calculate the Net Present Value and suggest if the proposal should be accepted or not. **(06)**

Q3.

a. A project costs Rs.500000/- and has a scrap value of Rs.100000/-. Its streams of income before depreciation and taxes during first years is Rs.100000/-,Rs.120000/-, Rs.140000/-, Rs.160000/- and Rs.200000/-. Assume a 50% tax rate and depreciation on straight line basis. Calculate the accounting rate for the project. Also state whether you recommend the project for investment when the management expects a rate of return of 10%. **(06)**

b. Explain the capital Budgeting Process. **(06)**

Q4.

a. XYZ ltd is considering two projects. Each project is requiring an investment of Rs. 10000/-. The firms cost of capital is 10%. The net cash inflow from investment in the two projects X and Y are as follows:-

Year	1	2	3	4	5
X (Rs)	5000	4000	3000	1000	----
Y (Rs)	1000	2000	3000	4000	5000

The company has fixed 3 years PBP as the cutoff point. State which project should be accepted. **(06)**

b. What do you understand by over capitalisation? How can overcapitalisation be rectified?**(06)**

Q5.

a. Prathemesh limited is deciding to issue Rs 30 lakh 11% debentures of Rs. 1000 each redeemable after 12 years. The debentures will have to be sold at 4% discount. Further an underwriting of 2% of the face value will be paid by the company. Assume 50% tax rate.Calculate the after tax cost of the issue. What would be the after tax cost if the debentures were sold at a premium of Rs 50/-. **(06)**

b. Discuss the feature of Traditional Approach to Finance function. **(06)**

Q6.

a. Explain Gordon Model. Discuss its assumptions. **(06)**

b. Explain the classification of working capital. **(06)**