

Vidya Vikas Mandal's  
Shree Damodar College of Commerce & Economics Margao Goa  
S.Y.BBA (FS), Sem. III, Semester-End Assessment, October 2017  
**FINANCIAL MANAGEMENT**

Max. Marks: 60

Duration: 3 hours

Instructions:

- *Figures to the right indicate maximum marks.*
- *Question One is compulsory.*
- *Answer any Four from question no. 2 to question no. 6.*

**Q 1. Write a short note on any Five of the following:-**

(5x4=20 mks)

- a. Primary functions of financial management.
- b. Time value of money.
- c. Working capital.
- d. Walter's model of dividend policy.
- e. Net Income theory.
- f. Trading on equity.

**Q 2.**

- a. A company is considering expanding its production. It can go in either for an automatic machine costing Rs. 224,000 with an estimated life of 5 years or an ordinary machine costing Rs. 60,000 having an estimated life of 8 years. 50% tax. The annual sales and costs are estimated as follows:

	Automatic Machine	Ordinary Machine
Sales	150,000	150,000
<b>Costs:</b>		
Material	50,000	50,000
Labour	12,000	60,000
Variable O.H	24,000	20,000
	<b>86,000</b>	<b>130,000</b>

(06 mks)

Calculate Payback Period.

- b. Shree Synthetics Ltd. borrows Rs. 200,000 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 mks)

Q 3.

a. A limited has under consideration the following two projects. Details are as follows:

	Project X	Project Y
Investment in machinery	10,00,000	15,00,000
Working capital	500,000	500,000
Life	4	6
Scrap value	10%	10%
Tax rate	50%	50%

Income before depreciation & tax are as follows:

Year	Project X	Project Y
1	800,000	15,00,000
2	800,000	900,000
3	800,000	15,00,000
4	800,000	800,000
5	-	600,000
6	-	300,000

Calculate Accounting Rate of Return. (06 mks)

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. Calculate cost of capital if issue has been made

- a. At par value
- b. At discount of Rs. 5 per share. (04 mks)

Q. 4.

a. From the following information, calculate the Net Present Value of the two projects & suggest which project should be accepted assuming a discount rate of 10%.

	Project X	Project Y
Initial investment	20,000	30,000
Estimated life	5 years	5 years

The profits before depreciation & after tax are as follows:

Year	1	2	3	4	5
Project X	5000	10,000	10,000	3000	2000
Project Y	20,000	10,000	5000	3000	2000

Calculate Net Present Value. (06 mks)

b. The present market price of a company equity share is Rs. 60 & dividend paid for previous year per share is Rs. 4.50. If the 8% p.a. growth in the dividend is expected, then cost of capital would be? (04 mks)

Q. 5.

a. Reliance Ltd. desires to purchase a new machine in order to increase its present level of production. The cost of machine will be Rs. 70,000 and the net cash inflows during its life will be as follows:

Year	1	2	3	4	5
Net cash flows (Rs.)	50,000	40,000	20,000	10,000	10,000

Minimum rate of return laid down by the management is 25% p.a. Is the investment desirable? Discuss according to Internal Rate of Return.

Discount factor	Year 1	Year 2	Year 3	Year 4	Year 5
35%	0.741	0.594	0.406	0.301	0.223
40%	0.714	0.510	0.364	0.260	0.186

(06 mks)

b. Find out the cost of retained earnings from the following data:

Dividend per share Rs. 15

Personal Income tax rate 30%

Market price per share Rs. 110

Brokerage on investment of dividend 1%

(4mks)

Q. 6.

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	10,000	12000	3000	-	-	-
II	14,000	-	-	10,000	5000	7000
III	9,000	-	4000	5000	5000	2000

You are required to advice the management as to what project they should take up, give reasons for your advice.

(06 mks)

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

Sources of fund	Amount (Rs.)	After tax cost of capital
Equity share capital	350,000	0.12
Retained earnings	200,000	0.10
Preference share capital	150,000	0.13
Debentures	300,000	0.09

You are required to calculate the weighted average cost of capital.

(04 mks)

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