Roll No. ______

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

BFS GEC 5: Financial Management

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

Instructions:

- *Start each question on fresh page.*
- *Figures to the right indicate maximum marks.*
- *Q.1 is compulsory.*
- *Answers to sub questions for Q.1 should be approximately 100 words each.*
- *Answer any four from Q.2 to Q.6.*
- *Use of Non Programmable calculator is permitted.*

Q. 1. Answer any FIVE of the following: **(05 x 04 = 20 marks)**

a) Write a short note on 'Time Value of Money'.

b) Explain the importance of Investment Decisions.

c) Explain the different Forms of Dividend.

d) Explain the routine functions of Financial Management.

e) Write a short note on 'Trading on Equity'.

f) Explain the Gordon's Model of Dividend Policy.

Q. 2. a. Bharat Forge Ltd. is considering the purchase of a machine. Each of these machines cost Rs. 200000 each and the annual cash inflows after depreciation and tax for 5 years period are as follows: **(06 marks)**

YEAR	1	2	3	4	5
Cash Inflow of Machine A (Rs.)	60000	80000	50000	40000	40000
Cash Inflow of Machine B (Rs.)	20000	75000	95000	70000	45000

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

Q. 2. b. A Company issues 12% debentures of Rs.800000 (face value Rs.1000), however incurs Rs.100 for underwriting and brokerage Rs. 200. These are repayable after 12 years with 5% premium. Corporate tax rate being 30%. Calculate the cost of debt capital before and after tax liability. **(04 marks)**

Q. 3. a. Century Enka Ltd. has under consideration the following two projects. [illegible] follows: **(06 marks)**

Particulars	Machine A	Machine B
Cost	168375	174375
Annual estimated income after depreciation & tax		
Year 1	10125	34125
Year 2	16125	28125
Year 3	22125	22125
Year 4	28125	16125
Year 5	34125	10125
Estimated life	5 years	5 years
Estimated salvage value	9000	9000

Evaluate the two alternatives according to Average Rate of Return Method and suggest the best alternative.

Q. 3. b. 12% preference shares worth Rs 60,000 (Face value Rs.100 each) issued at 5% discount and after 6 years redeemable at 10% premium. The flotation cost is 5% and tax rate is 20%. Find out the cost of preference share capital. Calculate the cost of preference share capital before and after tax liability. **(04 marks)**

Q. 4. a. From the following information of two projects and suggest which should be accepted assuming a discount rate of 10%. The projects require an initial investment of Rs.225000 each and are expected to generate the following net cash inflows: **(06 marks)**

Cash Receipts are as follows:

Years	Project X	Project Y	PV factor@10%
1	95000	50000	0.909
2	80000	60000	0.826
3	60000	60000	0.751
4	55000	80000	0.683
5	70000	70000	0.621

Calculate the Net Present Value (using given table) of the projects and suggest the best proposal.

Q. 4. b. Cummins India Ltd. is currently being traded at Rs.5 per share and just announced a dividend of Rs.0.50 per share, which will be paid out next year. Using historical information, an analyst estimated the dividend growth rate of XYZ Company to be 2%. What is the cost of equity? **(04 marks)**

Q. 5. a. [illegible] Cables Ltd. is considering the investment proposal (06 marks)

PARTICULARS	PROPOSAL (Rs.)
Investment cost	28000
Estimated cash inflows at the end of	
Year 1	10000
Year 2	8000
Year 3	4000
Year 4	10000
Year 5	10000

Present Value Interest Factor

Year	13%	14%	15%	16%	17%
0	1.000	1.000	1.000	1.000	1.000
1	0.885	0.877	0.870	0.862	0.855
2	0.783	0.769	0.756	0.743	0.731
3	0.693	0.675	0.658	0.641	0.624
4	0.613	0.592	0.572	0.552	0.534
5	0.543	0.519	0.497	0.476	0.456

Calculate the Internal Rate of Return of the proposal.

Q. 5. b. The following information is available: **(04 marks)**

Dividend Per Share	Rs. 50
Personal Income Tax Rate	30%
Brokerage on Investment of Dividend	2%
Market Price Per Share	Rs. 250

Calculate the cost of retained earnings.

Q. 6. a. Given is the information of two plants at 10% discounting ratio. **(06 marks)**

Year	PV Factor @ 10%	Plant A Cash Flows (Rs.)	Plant B Cash Flows (Rs.)
0	1.000	(800000)	(800000)
1	0.909	150000	200000
2	0.826	300000	600000
3	0.751	500000	500000

You are required to rank the projects on the basis of Profitability Index method.

Q. 6. b. Following information is available with regards to the capital structure of Punjab Ltd. **(04 marks)**

Sources of Funds	Amount (Rs.)	After Tax Cost of Capital
Debentures	1500000	0.05
Preference Shares	1200000	0.10
Equity Shares	1800000	0.12
Retained Earnings	1500000	0.11

Calculate the Weighted Average Cost of Capital.