VIDYA VIKAS MANDAL'S

SHREE DAMODAR COLLEGE OF COMMERCE & ECONOMICS

Margao - Goa

S.Y.BBA (Financial Services), Semester III (Repeat), Semester-End Assessment, April 2017

Financial Management

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

Instructions:

- *Figures to the right indicate maximum marks.*
- *Answer any Five from question 1 to question 6.*

Q1.

a. Explain Gordon Model. Discuss its assumptions. **(08 marks)**

b. Explain the classification of working capital. **(04 marks)**

Q2.

a. What do you understand by the term "Capital budgeting"? Explain the types Capital Budgeting decisions. **(08 marks)**

b. 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

(04 marks)

Q3.

a. Explain the capital Budgeting Process. **(08 marks)**

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

- Current market price of the share Rs 140/-.
- Brokerage per share 3%
- Growth in expected dividend 5%
- Expected dividend per share on new shares Rs.14/-
- Shareholders marginal or personal income tax 22%

Q4.

a. Briefly discuss the limitations of Pay Back Period. (04 marks)

b. Write a short note on Net Operating Income Theory. (04 marks)

c. Discuss the effects of undercapitalisation. (04 marks)

Q5.

a. State the activities under the purview of Modern Approach of Finance function. (04 marks)

b. Write a short note on Need for Working Capital. (04 marks)

c. Bakers Ltd issues 50000 equity shares of Rs.10/- each at premium of 20% and the company pays underwriting commission at Rs. 2.5 per share. Calculate the cost of equity share capital. (04 marks)

Q6.

a. Briefly discuss the difficulties in Capital Budgeting. (04 marks)

b. Write a short note on Opportunity Cost. (04 marks)

c. VigneshLtd issued 10000 ten years 8% debentures of Rs. 100/- each at 4% discount. Under the term of debenture trust, these debentures are to be redeemed after 10 years at 5% premium. The cost of issue is 2%. Assuming corporate tax rate at 50%, calculate before and after tax cost of debt capital. (04 marks)

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