

VidyaVikasMandal's  
Shree Damodar College of Commerce & Economics Margao Goa  
S.Y.BBA (FS), Semester-End Assessment, *April* 2017  
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. Modern Approach to Financial Management
- b. Operating Leverage
- c. Net Operating Income Approach Theory
- d. Importance of working Capital
- e. Time value of Money
- f. Overcapitalisation

Q2.

- a. A project with an initial investment of Rs.10000/- generates cash inflow of Rs.5000/-, Rs.4000/-, and Rs.3000/- with life of 3 years. Calculate the Internal Rate of Return. (06)

The present value of Re.1 varying discount rates for a period of 3 years is as follows:

Years	8%	10%	12%	14%
1	0.926	0.909	0.893	0.877
2	0.857	0.826	0.797	0.769
3	0.794	0.751	0.712	0.675

- b. A company issues 12% debentures of Rs.500000/- repayable after 10 years at a discount of 4% and incurs Rs.10000/- for underwriting, brokerage etc. corporate tax being 30%. Calculate the cost of debt capital. (04)

Q3.

- a. Calculate the profitability index given the following information, regarding Plant A and Plant B. Rank the projects on the basis of profitability index. Discount Rate is 15%.

Years	Cash flows (Rs)	
	Plant A	Plant B
0	-20000/-	-12000/-
1	9500/-	6000/-
2	11000/-	7400/-
3	10000/-	5600/-

**Note:** The present value of Re.1 at 15% discount rate for first, second and third year is 0.870, 0.756 and 0.658 respectively. (06)

- b. Y limited issues 50000 10% preference shares of Rs.100/- each redeemable after 10 years at a premium of 5%. The cost of issue per share is Rs.2/- per share. Calculate the cost of preference share capital. Assume 30% corporate tax rate. (04)

**Q4.**

- a. No project is accepted by ABC Company unless the yield is 10%. Cash inflows of a certain project along with cash outflow are given below:

Years	0	1	2	3	4	5
Outflow(Rs)	150000	30000	--	--	--	--
Inflow(Rs)	--	20000	30000	60000	80000	30000

The salvage value at the end of 5<sup>th</sup> year is Rs.40000/-. Calculate Net Present Value.

**Note:** 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. A Limited Company has issued 2000 equity shares of Rs.100/- each as fully paid. The company has earned a profit of Rs.20000 after tax. The market price of these shares is Rs.160/- per share. On these shares dividend has been paid at the rate of Rs.8/- per share. Calculate the cost of equity share capital using Dividend Yield Method and Earning Yield Method. (04)

**Q5.**

- a. ABC Limited is considering investing in a project that costs Rs.500000/-. The estimated salvage value is zero. Tax rate is 35%. The company uses straight line depreciation for tax purpose and the proposed project has cash flows before depreciation and tax (CFBDT) as follows:-

Year	1	2	3	4	5
CFBDT(Rs)	100000	100000	150000	150000	250000

Determine Average Rate of Return. (06)

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

Dividend per share	Rs.9/-
Personal income tax rate	30%
Personal capital gain tax rate	20%
Market price of share	Rs.100/-

**Q6.**

- a. X Limited is considering the purchase of new machine which will carry out some operations at present performed by labours. Two alternative models A and B are available for the purpose. Prepare a profitability statement showing Pay Back Period from the following information:



	Machine A	Machine B
Estimated Life (years)	5	6
Cost of machine (Rs)	80000	150000
<b>Estimated additional cost (Rs)</b>		
a. Maintenance (Per month)	500	750
b. Indirect material (Per month)	2000	3000
c. Supervision (per quarter)	3000	4500
Estimated savings in scrap (Rs)	8000	12000
<b>Estimated savings in direct wages (per annum)</b>		
a. Employees not required	10	15
b. Wages per employee (Rs)	7200	7200

Depreciation is calculated using straight line method. Taxation may be taken at 50% of profit (Net savings). (06)

- b. A company issues 12% debentures of Rs.500000/- redeemable after 10 years at a premium of 5% and incurs Rs.10000/- as issue expenses. Calculate the cost of debt capital. (04)

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