

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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