Vidya Vikas Mandal's

Shree Damodar College of Commerce & Economics, Margao- Goa

Second Year BBA (FS) – Semester III, End Semester Examination, April 2016

FINANCIAL MANAGEMENT

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

Instructions:

- *Figures to the right indicate maximum marks*
- *Start each new question on a fresh page*
- *Answer any **SIX** questions*

Q1.

a. Briefly Discuss the Financial Management Activities. **(03)**

b. Write a short note on Expansion Projects. **(03)**

c. Miss. Divya deposited Rs 5000/-, Rs.10000/-, Rs.15000/-, Rs.20000/- and Rs 25000/- in savings bank account for 5 years. Interest rate is 6%. Calculate future value of deposits after 5 years. **(04)**

Q2.

a. Discuss the Significance of cost of capital. **(06)**

b. A project costs Rs.500000/- and has a scrap value of Rs.100000/-. Its streams of income before depreciation and taxes during first years is Rs.100000/-,Rs.120000/-, Rs.140000/-, Rs.160000/- and Rs.200000/-. Assume a 50% tax rate and depreciation on straight line basis. Calculate the accounting rate for the project. Also state whether you recommend the project for investment when the management expects a rate of return of 10%. **(04)**

Q3.

a. Briefly discuss the difficulties in Capital Budgeting. **(03)**

b. Write a short note on Opportunity Cost. **(03)**

c. Vignesh Ltd 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)**

Q4.

a. What do you understand by over capitalisation? How can overcapitalisation be rectified? **(06)**

b. Sunshine Ltd is considering a proposal for the investment of Rs 500000/-on a product development, which is expected to generate net cash inflows for the years as under.

Year	Net cash flows	PV Factor at 15%
1	----	0.87
2	100000	0.76

3	160000	0.66
4	240000	0.57
5	500000	0.50
6	600000	0.43

Calculate the Net Present Value and suggest if the proposal should be accepted or not. **(04)**

Q5.

- **a.** State the activities under the purview of Modern Approach of Finance function. **(03)**
- **b.** Write a short note on Need for Working Capital. **(03)**
- **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)**

Q6.

- **a.** Discuss the feature of Traditional Approach to Finance function. **(06)**
- **b.** A company's cost of equity capital is 12% and tax rate of its majority of shareholders is 22%. It is expected that 3% is the brokerage charges which investors will pay while investing their dividends in alternative equal investment opportunity. Calculate the cost of retained earnings. **(04)**

Q7.

- **a.** Briefly discuss the limitations of Pay Back Period. **(03)**
- **b.** Write a short note on Net Operating Income Theory. **(03)**
- **c.** Discuss the effects of undercapitalisation. **(04)**

****