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Shree Damodar College of Commerce & Economics Margao-Goa

S.Y.BBA(FS) SEMESTER III, SEMESTER END ASSESSMENT,OCTOBER 2018

FINANCIAL MANAGEMENT

Duration: 3 Hours **Max. Marks: 60**

Instructions:

- *Figures to the right indicate maximum marks.*
- *Start each question on a fresh page*
- *Question One is compulsory*
- *Answer any Four from question 2 to question 6*

Q.1.Answer any five of the following: **(5*4=20)**

a) Profit maximization.
b) Financing Decision
c) Primary function of Financial Management.
d) Factors determining dividend policy
e) Under Capitalization
f) Traditional Theory of capital structure

Q.2.a Hindustan Aeronautics Ltd is considering the purchase of a machine. Two machines are available in the market, Wedge machine and Pulley machine. Each of these machine cost Rs. 200000 each. Earnings after tax but before depreciation are expected to be as follows: **(06)**

YEAR	1	2	3	4	5	6
Cash Inflow of Wedge Machine (Rs.)	70000	60000	55000	40000	30000	25000
Cash Inflow of Pulley Machine (Rs.)	25000	80000	100000	75000	50000	55000

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

Q.2.b. A company issues 12% debentures of Rs.600000 repayable after 10 years, however incurs Rs.10000 for underwriting, brokerage, etc. which are adjusted with 5% premium. Corporate tax rate being 30%. Calculate the cost of debt capital before and after tax liability. **(04)**

Q.3.a PLM Software Solutions ltd has under consideration the following two projects. The details are as follows:-

PARTICULARS	PROJECT X	PROJECT Y
Investment in machinery	1000000	1500000
Working capital	500000	500000
Life	4 years	6 years
Scrap value	10%	10%
Tax rate	50%	50%

Income before depreciation and tax are as follows:-

YEAR	PROJECT X	PROJECT Y
1	800000	1500000
2	800000	900000
3	800000	1500000
4	800000	800000
5	-	600000
6	-	300000

Evaluate the two alternatives according to Average Rate of Return Method and suggest the best alternative.. **(06)**

Q.3.b. Soltex Petroproducts Ltd issues 60000, 10% preference shares of Rs.100 each redeemable after 10years at a premium of 10 %. The cost of issue is Rs.3 per share and corporate tax at 30%. Calculate the cost of preference share capital before and after tax liability. **(04)**

Q.4.a. From the following information of two projects and suggest which should be accepted assuming a discount rate of 10%. The Initial investment for Project X is Rs. 200000 and for Project Y is Rs. 240000 ; half payable immediately and half payable in one year's time.

Cash Receipts are as follows:

Years	Project X	Project Y	PV factor@10%
1	40000	-	0.909
2	120000	120000	0.826
3	80000	120000	0.751
4	60000	160000	0.683
5	40000	-	0.621

Calculate the Net Present Value (using given table) of the projects and suggest the best proposal. **(06)**

Q.4.b. Purity Chemicals Ltd has its shares of Rs.600 each quoted on the stock exchange, dividend per share over the last few years is Rs.10.50 at growing rate of 10%. Calculate the cost of equity shares. **(04)**

Q.5.a. Kaiser Pest Management Ltd are considering the investment proposal:

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. **(06)**

Q.5.b. The following information is available:

Dividend per share	Rs.30
Personal Income tax rate	30%
Brokerage on Investment of dividend	2%
Market price per share	Rs.210

Calculate the cost of retained earnings. **(04)**

Q.6.a. Given is the information of two plants at 10% discounting ratio.

YEAR	PV Factor at 10%	Plant A Cash flows Rs.	Plant B Cash flows Rs.
0	1.000	(20000)	(12000)
1	0.909	9500	6000
2	0.826	11000	7400
3	0.751	10000	5600

You are required to rank the projects on the basis of Profitability Index method. **(06)**

Q.6.b. Following information is available with regards to the capital structure of Punjab ltd.

Sources of funds	Amount(Rs)	After tax cost of capital
Equity share capital	700000	0.12
Retained earnings	400000	0.10
Preference shares	300000	0.13
Debentures	600000	0.09

Calculate the Weighted average cost of capital. **(04)**

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