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Shree Damodar College of Commerce & Economics, Margao- Goa

Second Year BBA (FS) – Semester III, End Semester Examination, October 2015

FINANCIAL MANAGEMENT

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

Instructions:

- *Figures to the right indicate maximum marks*
- *Start each new question on a fresh page*
- *Question **ONE** compulsory*
- *Answer any **FOUR** questions from Q2 to Q7*

Q1. Write a short note on any **Four** from the following: - **(4*3=12)**

a. Profit Maximisation
b. Time Value of Money
c. Diversification Projects
d. Undercapitalisation
e. Operating Leverage

Q2.

a. Define Financial Management. Discuss the scope of Financial Management. **(08)**

b. Mr. Anwar deposited Rs. 200000/- in savings account at 6% simple interest and is interested to keep the deposit for a period of 5 years. Calculate interest at the end of 5 years. **(04)**

Q3.

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

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)**

Q4.

a. Explain Net Income Theory. Discuss its Assumptions. **(08)**

b. Prathemesh limited is deciding to issue Rs 30 lakh 11% debentures of Rs. 1000 each redeemable after 12 years. The debentures will have to be sold at 4% discount. Further an underwriting of 2% of the face value will be paid by the company. Assume 50% tax rate.

Calculate the after tax cost of the issue. What would be the after tax cost if the debentures were sold at a premium of Rs 50/-. **(04)**

Q5.

a. Define Preference shares. Discuss the types of preference shares. **(08)**

b. Ashwet ltd Company has under consideration following two projects. Their details are as follows:

PARTICULARS	PROJECT X (RS)	PROJECT Y (RS)
Investment in machinery	100000	150000
Working capital	500000	500000
Life of Machinery (years)	4	6
Scrap value of machinery (%)	10	10
Tax Rate (%)	50	50

Income before Depreciation and Tax

Years	1	2	3	4	5	6
X (Rs)	800000	800000	800000	800000	-----	-----
Y (Rs)	1500000	900000	1500000	800000	600000	300000

Calculate the average rate of return and suggest which project is to be preferred. **(04)**

Q6.

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

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

- 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%

Q7.

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

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

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