ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS)

IV SEMESTER BBA EXAMINATIONS - APRIL 2019

FINANCIAL MANAGEMENT

Duration: 2.5 Hours **Max. Marks: 70**

SECTION – A

Answer any TEN of the following questions. **(10x3=30)**

1. Name the four decisions that form an integral part of financial management.
2. State three motives of holding cash
3. Alpha Ltd. intends to issue new equity shares. Its present equity shares are being sold in the market at Rs. 125 a share. The company's past record show its dividend growing at 7%. The company pays a dividend of Rs, 15 per share. You are required to calculate Cost of funds raised by issue of equity shares.
4. Initial investment Rs. 7,50,000, scrap value Rs. 1,00,000, working life 5 years, additional working capital Rs. 50,000. Calculate average investment.
5. Cipla Pharmaceuticals is considering investing in a new plant for manufacturing of its drugs, the cost of the plant is Rs.4,00,000 and the anticipated Cash flows from this plant for the next 10 years is Rs. 50,000 p.a. Calculate the payback period.
6. Calculate profitability Index, if Total Present Value is Rs. 5,50,000 and Initial Investment is Rs. 3,50,000.
7. Identify any three forms of dividends
8. Define (a) Capital the structure (b) Optimal capital structure
9. Give the meaning of (a) Gross working capital (b) Net working capital
10. Write any three sources of long term funds
11. What is capital budgeting? Give examples
12. Define (a) Inventory management (b) Receivables management

SECTION – B

Answer any FOUR of the following questions. (4x5=20)

13. Jyothi Labs is intending to invest in a project costing Rs. 2,00,000. The anticipated cash inflows from this project before depreciation and tax during the first five years are Rs. 40,000, Rs. 42,000, Rs. 38,000, Rs. 34,000 and Rs. 46,000 respectively. The project has a scrape value of Rs. 20,000. Assuming a 50% tax rate and depreciation on straight line basis. Calculate the accounting rate of return.
14. Kingfisher Limited has debt capital of Rs. 1,00,000 on which 15% interest is payable. Tax applicable is 35%. You are required to calculate cost of capital assuming debt is issued at (a) Par value (b) 10% discount and (c) At a premium of 10%.
15. A company has sales of Rs. 60,00,000, variable cost of Rs. 40,00,000, fixed cost of Rs. 5,00,000 and debt of Rs. 30,00,000 at 10% rate of interest. Calculate Operating, Financial, Operating and Combined Leverages.
16. Mention 10 factors influencing dividend policy
17. Analyze the importance of adequacy of working capital
18. Calculate Pay Back period from the following information:

Particulars	**Amount (Rs.)**
Initial Investment	5,00,000
Profits before Depreciation & Tax	
1^{st} Year	2,00,000
2^{nd} Year	2,50,000
3^{rd} Year	2,20,000
4^{th} Year	1,70,000
5^{th} Year	1,00,000
Tax Rate	50%

SECTION - C

Answer any TWO of the following questions. (2x10=20)

19. A firm has the following capital structure and after-tax costs for the different sources of funds used:

Source of Funds	**Amount**	**Proportion (%)**	**After-tax cost (%)**
Debt	12,000	20	4
Preference Shares	15,000	25	8
Equity Shares	18,000	30	15
Retained Earnings	15,000	25	11
Total	60,000	100	

Computation of Weighted Average Cost of Capital.

20. Air Talk Corporation, a cell phone network provider is contemplation buying a radio frequency spectrum license from the Government. Two options are available '3G' and '4G' costing Rs. 5,00,000 and Rs. 6,00,000 respectively. The estimated Profits before depreciation and after tax are expected to be as follows:

Years	'3G' Spectrum	'4G' Spectrum
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	2,00,000

The company is using its retained earnings to finance the proposal and its expected rate of return is 10%. The present value of Re. 1 at 10% discount factor is as follows:

Year	1	2	3	4	5
Discount Factor	0.909	0.826	0.751	0.683	0.620

Using NPV method, advice the management on the acceptability of the proposal.

21. HDFC Bank is capitalized with Rs. 10,00,000 comprising of 1,00,000 equity shares of Rs. 10 each. The management is planning to raise another Rs. 10,00,000 to finance its growth programme. There are four possible financing plans are given below:
    1. All 10,00,000 through issue of 1,00,000 equity shares of Rs. 10 each
    2. Rs. 5,00,000 in equity and the balance in debentures carrying 10% interest
    3. Entire 10,00,000 through debentures carrying 8% interest
    4. Rs. 5,00,000 in equity and Rs. 5,00,000 through preference shares carrying 10% dividend

The anticipated operating profits after expansion programmes amounts to Rs. 2,40,000, the company is subject to 50% tax bracket. You are required to advice the management in choosing appropriate capital structure plan on the basis on EPS.

22. Mention the merits and demerits of profit maximization objective.