Register Number:
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ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27

BCOM - III SEMESTER

SEMESTER EXAMINATION: NOVEMBER 2020

BC / BPS 3218 – FINANCIAL MANAGEMENT

Time- 2 1/2 hrs **Max Marks-70**

This paper contains 3 printed pages and four parts

SECTION A

Answer any FIVE of the following questions. Each question carries two marks each (5x2 = 10)

1. Initial investment is Rs 5,00,000, annual cash inflow is Rs 20,000. Find Payback Period.
2. Mention any two motives of holding cash.
3. State the difference between Scrip Dividend and Stock Dividend.
4. What is meant by Factoring?
5. A Ltd issues 1,000 equity shares of Rs 100 each. The issue is at a premium of 10%. Dividend is 20%. Calculate cost of equity.
6. List out any two limitations of financial planning.

SECTION B

Answer any THREE of the following questions. Each question carries five marks each (3x5 = 15)

7. What is Dividend policy? Briefly explain the types of Dividend policy.
8. Capital structure of ABC company consist of equity share capital of Rs 10,00,000(divided into shares of Rs 100 each). It also consists of 10% debentures worth Rs 10,00,000.
   Sales in the first year was 4,00,000 units and in the second year it increased by 20%.
   Selling price per unit is Rs 10. Variable cost per unit is Rs 8. Fixed cost is Rs 4,00,000. Tax is 50%.
   a) Calculate O.L and F.L for the first year of output.
   b) Calculate O.L and F.L for the second year of output.
9. A firm has the following capital structure

Sources	Amount	Proportions(W%)	Cost (%)
Debt	15,00,000	25	5
Preference share	12,00,000	20	10
Equity share of Rs 100 each	18,00,000	30	12
Retained earnings	15,00,000	25	11

You are required to

a) Calculate the weighted average cost of capital

b) Calculate the new weighted average cost of capital based on market value, if the market price of per equity share is Rs 300. Assume there is no change in the market value of debt and preference. The cost of debt, preference and equity remains the same.

10. Mr A invests the following amounts at the end of each year for 5 years. Calculate the future value of his investments at the end of 5th year if the rate is 10%.

Year	Amount
1	1,000
2	2,000
3	3,000
4	3,000
5	4,000

SECTION C

Answer any TWO of the following questions. Each question carries fifteen marks each (2x15 = 30)

11. a)Mr. Albert & Co. issued debenture having an interest rate of 10%. Flotation cost is Rs 15 per debenture. Tax rate is 35%. Value of the debenture is Rs 100 and it is issued at 5% premium. The debentures are redeemed after 10 years at a premium of 12%. Calculate the following –

- Before tax cost of debt
- After tax cost of debt

b) A company issues 20,000 10 % preference shares of Rs 100 each. These are redeemable after 8 years at a premium of 6%. Cost of issue is Rs 4 per share. Find out the cost of preference capital.

12. XYZ Ltd has the following capital structure

(i) Equity share capital of Rs.10,00,000 (Rs.100 each)

(ii) Retained earnings Rs.10,00,000

(iii) 9% preference shares Rs.15,00,000

(iv) 7% debentures Rs.9,00,000

Company requires another Rs.20,00,000 and to get this amount following options are available

(a) issue 20,000 equity shares of Rs.100 each.

(b) completely through 10% preference shares

(c) completely through 8% debentures

Tax rate-50% and EBIT-12% on the entire capital. On the basis of EPS, suggest the best alternative.

13. Elucidate on the concept of working capital and the determinants of working capital.

SECTION D

Answer the following complusory question. The question carries fifteen marks (1x15 = 15)

14. A company has to make a choice between buying of two machines. Machine A would cost Rs 30,000 and Machine B would cost Rs 50,000. The two machines have a life of 5 years and 6 years respectively. . The company follows straight line depreciation method and is subjected to 50% tax. Discounting rate is 10%. The profits (after depreciation and after tax) are given as below: -

Particulars	**Machine A**	**Machine B**
Year	**Profits**	**Profits**
1	800	3,000
2	1,200	4,200
3	2,000	5,800
4	3,500	4,500
5	3,500	5,500
6	-	6,500

Additionally, there is scrap value of Rs 2,000 at the end of the year for both machines.

You are required to calculate:

1) Pay Back Period
2) Post Pay Back Period
3) Discounted payback period
4) Net Present Value
5) Profitability Index