

Internal Assessment Test - II

Sub:	FINANCIAL MANAGEMENT	Code:	17MBA22
Date:	26/4/18	Duration:	90 mins
		Max Marks:	40
		Sem:	II
		Branch:	MBA

		Marks	OBE																					
			CO	RBT																				
Part A - Answer Any Two Full Questions (16*02=32 Marks)																								
1 (a)	Define cost of capital	[02]	CO1	L1																				
(b)	Explain capital budgeting and its features	[06]	CO2	L4																				
(c)	ABC Ltd. issues 12% debentures of Rs 600,000. The tax rate applicable is 30%. Compute the cost of debt capital i) at par ii) at 10% premium iii) at 10% discount	[08]	CO1	L3																				
2 (a)	What is the meaning of profitability Index	[02]	CO2	L1																				
(b)	BPL Company's equity share is currently selling at Rs 350.75 and it is currently paying a dividend of Rs 5.25 per share. The dividend is expected to grow at 15 % per annum for one year. Income tax rate is 40% and brokerage is 2%. Calculate the cost of retained earnings	[06]	CO1	L3																				
(c)	Discuss in detail capital budgeting process.	[08]	CO3	L2																				
3 (a)	Explain marginal cost of capital	[02]	CO3	L4																				
(b)	A Company's after tax , cost of capital of the specific sources is as follows	[06]	CO2	L3																				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Sources of finance</th> <th>Book Value(Rs)</th> <th>Market Value(Rs)</th> <th>Specific Costs</th> </tr> </thead> <tbody> <tr> <td>Debt Capital</td> <td>400,000</td> <td>380,000</td> <td>5%</td> </tr> <tr> <td>Preference Capital</td> <td>100,000</td> <td>110,000</td> <td>8%</td> </tr> <tr> <td>Equity capital</td> <td>600,000</td> <td>900,000</td> <td>15%</td> </tr> <tr> <td>Retained Earnings</td> <td>200,000</td> <td>300,000</td> <td>13%</td> </tr> </tbody> </table>	Sources of finance	Book Value(Rs)	Market Value(Rs)	Specific Costs	Debt Capital	400,000	380,000	5%	Preference Capital	100,000	110,000	8%	Equity capital	600,000	900,000	15%	Retained Earnings	200,000	300,000	13%			
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	Compute WACC based on a) book Value weight b) Market value Weights																							

(c) ABC LTd has the following capital structure

[08]

4000 equity share of Rs 100 each	Rs 400,000
10% preference shares	Rs 100,000
11% debentures	Rs 500,000

The current market price of the share is Rs 102. The company is expected to declare a dividend of Rs 10 at the end of the current year, with an expected growth rate of 10% and tax rate is 50%.

a) Find the cost of equity capital and WACC.

b) Assuming that the company can raise Rs 300,000, 12% debentures find out the new WACC if

- i) if dividend rate is increased from 10 to 12%.
- ii) Growth rate reduced to 8%
- iii) Market price is Rs 98.

CO1	L3
CO3	L3

Part B - Compulsory (08 x1=08 marks)

4

(a) A company has the following expected net cash flows given below

[08]

Year	0	1	2	3	4	5
Project A	-20,000	-	5000	20,000	14,000	14,000
Project B	-40,000	10,000	14,000	16,000	17,000	15,000

Determine NPV , PI, Pay Back period and ARR of the investment project, and suggest which project

Should be accepted using the cost of capital is 10%.

Course Outcomes		PO1	PO2	PO3	PO4	PO5	PO6	PO7
CO1:	To familiarize the students with basic concepts of financial management	1a	1c, 2b			1b		
CO2:	To understand time value of money and cost of capital		2a, 3b, 3c					
CO3:	To analyze capital structure, capital budgeting and dividend decision	3a	4a			2c, 3c		
CO4:	To understand the short term and long term financing and working capital management							
CO5:								

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1 - *Knowledge application*; PO2 - *Analytical and logical thinking*; PO3 - *Team work*; PO4 - *Leadership*; PO5 - *life-long learning*; PO6 - *Analyze and practice aspects of business*; PO7- *Personal and Societal growth*;