PRESIDENCY UNIVERSITY, Bengaluru

School of Law

Comprehensive Examination

Financial Management

Course : BBL A 104 | II Semester 2015-2016 | [Closed Book] 27th May 2016

Max. Marks: 80 | Max. Time: 3 Hours | Weightage: 40%

Part – A

[10 X2M= 20M]

1. **Answer the following questions**

   a. State the broad areas of Financial Management

   b. Define Future Value of an Annuity and state its formula

   c. State any two [2] Equity Valuation Models. Give its generic formula.

   d. Define the term " Weighted Average Cost of Capital".

   e. Define "Systematic Risk" .Differentiate between " Variance" and "Standard Deviation"

   f. Distinguish between " Cost of Equity" and "Cost of Preference Share"

   g. State any four [4] techniques of Capital Budgeting "

   h. State the Concepts of "Working Capital"State any two characteristics of Current Assets.

   i. What is a Bond? State the formula for its valuation

Part B

Answer the following questions [6 X 5M=30M]

2. Discuss, in detail, the goals, both primary and alternate, associated with Financial Management.

3. Define the term "Return" . Calculate the Rate of Return [Total Return] from the following information:

Price at the beginning of the year	: Rs. 500
Dividend paid toward the end of the year	: Rs. 25
Price at the end of the year	: Rs. 600

4. Define the term "Cost of Debt Captial". X Ltd. Issues Rs. 50,000 , 8% debentures at par. The tax rate applicable to the company is 50%. Give the formula and compute the cost of debt capital.

5. a. Discuss the different types of Yields associated with a Bond.

b. Discuss any two methods associated with Share Valuation. State formula wherever applicable.

6. a. State the formula for computing the Future Value of a Single Cash Flow when the compounding is done 'm' times a year.

b. If the interest rate is 16 %, what are the "Doubling Periods" as per Rule of 72 and the Rule of 69 respectively?

7. a. Discuss the basic relationship between coupon rate, required yield and bond price

b. A Rs. 1,000 par value Bond bears a coupon rate of 10 % and matures after 6 years. Interest is paid semi-annually. Compute the value of the Bond if the required rate of return is 12 %.

Part C [3X 10M=30M]

8. The cost of specific sources of capital for Rex Limited is as under

Cost Parameter	Percentage
Cost of Equity	16 %
Cost of Preference Share	14 %
Cost of Debt	12 %

The market value proportions of equity, preference and debt are as under

Source of Capital	Proportion in terms of Market Value
Cost of Equity	0.60
Cost of Preference Share	0.05
Cost of Debt	0.35

The tax rate for the company is 30%.
Compute Weighted Average Cost of Capital

9. Discuss, in detail, the Building Blocks in Modern Finance. How does it add value to Business?

10. A project cost Rs. 5,00,000 and yields annually a profit of Rs. 80,000 after depreciation @ 12% p.a but before tax of 50%. Calculate the Pay-back Period and Internal Rate of Return [IRR] at a discount rate of 10%.

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II semester 2015-16 **Test 2** **Date: 16th May 2016**

Max. Marks: 50 **Max. Time: 50 minutes** **Weightage: 25%**

Part – A (5QX2M= 10M)

Answer the following questions. Each question carries 2 marks.

1. What is risk?
2. Give the main advantage of investing in a portfolio of assets?
3. Define Systematic risk.
4. What is market risk?
5. Define Pure risk.
6. What is Profitability Index? How do you calculate it.
7. What is the difference between PBP and discounted PBP?
8. Give any two advantages of NPV.
9. Give the formula to calculate Accounting Rate of Return.
10. What is cost of debt?

Part B (3Q X 5M=15M)

Answer the following questions. Each question carries five marks

1. A company is considering an investment proposal to purchase a machine costing Rs. 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows:

Year	CFBT (Rs.)
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate Average Rate of Return

2. What is the Internal rate of return of an investment which involves a current outlay of Rs. 3,00,000 and results in an annual cash inflow of Rs. 60,000 for 7 years?

3. A company issues Rs. 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before-tax and after- tax cost of debt assuming a tax rate of 50%.

Part C **(1QX 15M=15M)**

Answer the following question it carries 15 marks

1. A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow after taxes and before depreciation.

Year	Net Cash Flow
1	7000
2	7000
3	7000
4	7000
5	7000
6	8000
7	10000
8	15000
9	10000
10	4000

Using 10% as the cost of capital, determine the following

(i)PBP, (ii) NPV, (iii) Profitability Index

FM

Answer Scheme

Part – A

1. Meaning – 2 marks
2. One advantage – 2 marks
3. Meaning – 2 marks
4. Meaning – 2 marks
5. Meaning – 2 marks
6. Meaning and formula – 2 marks
7. Give the main difference – 2 marks
8. Two points – 2 marks
9. Give one formula – 2 marks
10. Meaning – 2 marks

Part B

1. Formula – 1 mark
   Calculation of cash flow after tax and depreciation – 2 marks
   Calculation of ARR – 2 marks.

2. Formula – 1 mark
   Finding the present value factor – 2 marks
   Finding IRR – 2 marks

3. Formula – 1 mark
   Cost of debt before – tax – 2 marks
   Cost of debt after – tax – 2 marks

Part C

1. PBP Formula – 2 marks
   PBP calculation – 3 marks
   NPV Formula – 2 marks
   NPV Calculation – 3 marks
   PI – Formula – 2 marks
   PI Calculation – 3 marks