**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

Registration Number:

Date & Session: 17-12-2022 (1PM)

 **BCOM-IFA – III SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCIFA 3322: FINANCIAL MANAGEMENT-I**

**Time: 2 Hours Max Marks: 60**

**This paper contains \_\_\_3\_\_\_ printed pages and \_\_\_4\_\_ parts**

**Section A**

I. Answer any **five** of the following  **(5 X 3 = 15marks)**

1. Which TWO of the following are examples of financial objectives that a company might

choose to pursue?

* 1. Dealing honestly and fairly with customers on all occasions
  2. Provision of good working conditions and industrial relations
  3. Earning above a particular level of return on capital employed
  4. Producing environmentally friendly products
  5. Restricting the level of gearing to below a specified target level.

1. Which TWO of the following statements are correct?
   1. Maximising market share is an example of a financial objective
   2. Shareholder wealth maximisation is the primary financial objective for a company listed on a stock exchange
   3. Financial objectives should be quantitative so that their achievement can be measured
   4. Three E’s are used as a performance measure to assess value of money in not for profit organisations. The three E’s stand for economy, efficiency and environment
2. Which TWO of the following statements are correct?
   1. Tax allowable depreciation is a relevant cash flow when evaluating borrowing to buy compared to leasing as a financing choice
   2. Asset replacement decisions require relevant cash flows to be discounted by the after‐tax cost of debt
   3. If capital is rationed, divisible investment projects can be ranked by the profitability index when determining the optimum investment schedule
   4. Government restrictions on bank lending are associated with hard capital rationing
3. Which TWO of the following statements about the accounting rate of return (ARR) method and the payback method are true?
   1. Both methods are affected by changes in the cost of capital
   2. The ARR does not take account of returns over the entire life of the project
   3. The payback method is based on the project’s cash flows
   4. A requirement for an early payback can increase a company's liquidity
4. Which TWO of the following statements are correct?
   1. A bonus issue can be used to raise new equity finance
   2. A share repurchase scheme can increase both earnings per share and gearing
   3. Shareholders usually have the power to increase dividends at annual general meetings of a company
   4. Offering new shares for tender may mean that not enough funding is raised from the share issue
5. Carp Co has announced that it will pay an annual dividend equal to 55% of earnings. Its earnings per share is $0.80 and it has ten million shares in issue. The return on equity of Carp Co is 20% and its current cum dividend share price is $4.60. What is the cost of equity of Carp Co?
   1. 19.4%
   2. 20.5%
   3. 28.0%
   4. 22.7%

**Section B**

II. Answer any **two** of the following **(2 x 5 = 10 marks)**

1. Discuss why wealth maximization is preferred over profit maximization.
2. Explain the role of treasury management.
3. Peel Co has identified four positive NPV projects, as follows:

Project NPV ($m) Investment at t0 ($m)

A 60 9

B 40 12

C 35 6

D 20 4

Peel Co can only raise $12m of finance to invest at t0.

Required: Advise the company which project(s) to accept if the projects are:

* 1. independent and divisible
  2. independent and indivisible

**Section C**

III. Answer any **two** of the following **(2 x 10 = 20 marks)**

1. Suggest appropriate measures of achievement that could be set for a service rendered by a college canteen.
2. Armax company has the following capital structure
   1. Equity share capital of Rs.400,000 (Rs.10 each)
   2. Retained earnings Rs.200,000
   3. 7% preference shares Rs.300,000
   4. 10% debentures Rs.10,00,000

Company requires another Rs.5,00,000. To get this amount following options are available

* + 1. issue 40,000 equity shares of Rs.10 each at a premium of Rs.2.5 per share
    2. Issue 20,000 equity shares of Rs.10 each and the remaining through 10% preference shares
    3. Issue 10,000 equity shares of Rs.10 each and the remaining through 8% debentures
    4. Issue 50% preference shares at a coupon rate of 11% the remaining 50% through 12% debentures

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

1. You are required to determine the WACC of Lungini Ltd using book value weights and market value weights assuming cost remains the same. The following information is available:

Debentures of Rs. 100 each ₹ 80,00,000

Preference shares of Rs.100 each ₹ 20,00,000

Equity shares of Rs.10 each ₹ 50,00,000

**Additional information**;

1. Rs.100 per debenture redeemable at par: 20 years maturity, 8% coupon rate, 4% floatation cost, sale price Rs.100
2. 10% Rs.100 preference shares redeemable at par : 15 years maturity, 5% floatation cost, sale price Rs.100
3. Equity shares has flotation cost of Rs.2 per share, sale price Rs.22

In addition the dividend on the equity shares at the end of the year Rs.2 per share. The anticipated growth rate in dividends is 5% And Corporate tax rate is 50%.

All the securities are traded in the capital market. Recent prices of the securities are debentures @ 110, preference shares @ 120 and equity shares at Rs.22.

**Section D**

IV **Answer the following (1 X 15 = 15 marks)**

1. An initial investment of $2,000 in a project yields cash inflows of $500, $500, $600, $600 and $440 at 12 months intervals. There is no scrap value. Funds are available to finance the project at 12%.

Required: Decide whether the project is worthwhile, using:

1. Net present value approach (5 marks)
2. Internal rate of return approach assuming LDR is 8% and HDR is 12%. (10 marks)