REG NO

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ST. JOSEPH'S COLLEGE (AUTONOMOUS) BENGALURU-27

SEMESTER EXAMINATION- NOVEMBER 2020

B.COM-IFA: III SEMESTER

BCIFA 3219: FINANCIAL MANAGEMENT-1

Section A

Answer *any five* of the following (2 x 5 = 10marks)

1. **Indicate whether the following objectives are financial or non□financial objectives of a company.**
   Maximisation of market share
   Earnings growth
   Sales revenue growth
   Achieving a target level of customer satisfaction

2. **Which of the following is/are among the elements of fiscal policy?**
   Government actions to raise or lower taxes
   Government actions to raise or lower the size of the money supply
   Government actions to raise or lower the amount it spends

3. **Which of the following is NOT typically a principal objective of macroeconomic policy?**
   To achieve full employment of resources
   To achieve economic growth
   To achieve a balance of payments deficit
   To achieve an appropriate distribution of income and wealth

4. **Indicate whether the following statements are true or false.**
   Working capital should increase as sales increase
   An increase in the cash operating cycle will decrease profitability
5. **What is EOQ?**
6. **What is Miller-Orr cash management model?**

Section B

Answer *any three* of the following (5 x 3 = 15marks)

7. A company has the following pattern of cash flow for a project:

Year	*Cash flow*
	$
0	(100,000)
1	40,000
2	20,000
3	30,000
4	5,000
5	40,000

The company uses a discount rate of 10%. Calculate discounted payback period?

8. A ltd has an EBIT of Rs.4,80,000. It has the following capital structure: (i) Equity share capital of Rs.400,000 (Rs.10 each)
   (ii) 14.5% debentures of Rs.10,00,000
   (iii)12% preference shares of Rs.6,00,000
   The company is expelling a fluctuation in its EBIT. Calculate the EPS if
   a) EBIT increases by 25% b) EBIT reduces by 20% applicable tax rate-35%
9. State the role of monetary policy on the macro economic environment of a business.
10. Disney Co has already decided to accept a project and is now considering how to finance it. The asset could be leased over four years at a rental of $16,000 pa, payable at the start of each year. Tax is payable at 40%, one year in arrears. The post-tax cost of borrowing is 10%. Required Calculate the net present value of the leasing option.

Section C

Answer *any two* of the following **(15 x 2 = 30 marks)**

11.The following information relates to an investment project, which is being evaluated by thedirectors of Fence Co, a listed company. The initial investment, payable at the start of thefirst year of operation, is $3.9 million.

Year	*1*	2	3	4
Net operating cash flow ($000)	1,200	1,500	1,600	1,580
Scrap value ($000)				100

The directors believe that this investment project will increase shareholder wealth if it achieves a return on capital employed greater than 15%. As a matter of policy, the directors require all investment projects to be evaluated using both the payback and return on capital employed methods. Shareholders have recently criticised the directors for using these investment appraisal methods, claiming that Fence Co ought to be using the academically preferred net present value method.

The directors have a remuneration package which includes a financial reward for achieving an annual return on capital employed greater than 15%. The remuneration package does not include a share option scheme.

a) **What is the payback period of the investment project?**

b) **Based on the average investment method, what is the percentage return on capital employed of the investment project?**

c) **Which TWO of the following statements about investment appraisal methods are correct?**

   a) The return on capital employed method considers the time value of money
   b) Return on capital employed must be greater than the cost of equity if a projectis to be accepted
   c) Riskier projects should be evaluated with shorter payback periods
   d) Payback period ignores the timing of cash flows within the payback period

d) **Calculate NPV if the required rate of return is 15%**

e) **Which of the following statements about Fence Co directors' remuneration package is/are correct?**

1 Directors' remuneration should be determined by senior executive directors.
2 Introducing a share option scheme would help bring directors' objectives in line with shareholders' objectives.
3 Linking financial rewards to a target return on capital employed will encourage short□term profitability and discourage capital investment.

A 2 only
B 1 and 3 only
C 2 and 3 only
D 1, 2 and 3

12.Discuss the objectives of financial Management.

13. Explain in detail the determinants of working capital requirements.

Section D

Compulsory Question **(1x 15 = 15marks)**

14. The directors of Get-Fit Co are considering a planned investment project costing $25m, payable at the start of the first year of operation. The following information relates to the investment project:

	Sales volumes (units/year)	Selling price ($/unit)	Variable costs ($/unit)	Fixed costs ($/year)
Year 1	520,000	30	10	700,000
Year 2	624,000	30	10.20	735,000
Year 3	717,000	30	10.61	779,000
Year 4	788,000	30	10.93	841,000

The Company pays corporation tax of 30%. The company can claim tax- allowable depreciation on a 25% of initial investment.The views of the directors of the company, all investment projects must be evaluated over four years of operations, with an expected rate of return at 12%

a) Calculate the net present value of the planned investment project. (5 marks)
b) Calculate the discounted payback period of the planned investment project (3 marks)
c) Calculate the IRR for the project. (7 marks)

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