

Register Number:

DATE:

**ST. JOSEPH’S UNIVERSITY, BANGALORE-27**

**BCOM – III SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2023**

**(Examination conducted in November /December 2023)**

BCIFA3323: FINANCIAL MANAGEMENT I

(For current batch students only)

Time- 2 hrs Max Marks-60

**This paper contains THREE printed pages and four parts**

**Section A**

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

1. From the following information calculate Operating leverage and financial leverage

Contribution is 200,000$, fixed cost is 30,000$ and interest in 150,000$.

1. What is risk? Is risk and uncertainty the same or different? Justify.
2. State the meaning of sensitivity analysis.
3. Mention the objectives of macroeconomic environment of business.
4. What is capital rationing? Give an example for the same.
5. A project involves the immediate purchase of an item of plant costing $110,000. It would generate annual cash flows of $24,400 for five years starting in year 1 and the scrap value is $10,000. The life of the plant is five years. Determine the projects ROCE using initial cost.

**Section B**

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

1. Explain the functions of treasury department of a firm.
2. Weeknd Plc has issued 10% redeemable debt with 5 years to redemption. The redemption is given at nominal value. The current market value of the debt is 105$. The corporate tax rate is 30%. Calculate the cost of debt to the company. *Assume the discounting rate to be taken as 5% and 15%.*

1. You are required to determine which divisible projects should be chosen to maximise the return to the business when the company has $100,000 available for investment and has identified the following 5 investments in which to invest. All investments must be started now i.e., year 0.

|  |  |  |
| --- | --- | --- |
| **Project** | **Initial investment $000** | **Net present value $000** |
| Pen | 40 | 30 |
| Paper | 100 | 25 |
| Pencil | 50 | 21 |
| Eraser | 60 | 19 |
| Sharpener | 50 | (10) |

**Section C**

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

1. From the following information calculate WACC. Moana Ltd has the following capital structure –
   1. The company issued equity shares of 800,000$ and has just paid a dividend of 10c. shareholders are expecting a dividend to grow at 7% pa. the current share price is $ 2.05.
   2. Loan of 600,000 $ from a bank at 11%.
   3. The company issued 5000 debentures amounting to 800,000$ and they were issued at a nominal value. The interest rate is 10% and tax rate is 30%.
   4. 10% preference shares of nominal value of 100$ amounting to 10,00,000.
2. Taylor has decided to acquire a new machinery and its costing 6.4$ million and having an economic life of 5 years. The tax allowable depreciation of 25% on a reducing basis is available for investment. The tax rate is 30% payable on cashflows, one year in arrears. The firm is looking to finance the new machinery by five-year fixed interest loan at a pre-tax cost of 11.4% pa with the principal repayable in five years’ time.

The alternative is to lease the machine where the proposed leasing agreement states a lease over five years at 1.42 million pa payable in advance. Scrap value of the machine under each financing alternative will be zero.

**Evaluate the two options for acquiring the machine and advise the company on the best alternative.**

1. Enumerate the process of not-for-profit organisation where the 3E’s of measurement are assessed.

**Section D**

**III. Answer the following (15marks)**

1. A) Chelsea Co is contemplating the available investment opportunity and the cash flows of the project Jeremy is given below: -

|  |  |
| --- | --- |
| **Year** | **Cashflows $** |
| 0 | 600,000 |
| 1 | 200,000 |
| 2 | 300,000 |
| 3 | 200,000 |
| 4 | 100,000 |
| 5 | 50,000 |

The discounting rate is 10%. Calculate the net present value and discounted payback period of Project Jeremy.

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