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[5362]-610**B.B.A. (Semester VI) EXAMINATION, 2018****FINANCIAL SPECIALISATION IV****(Cases in Finance)****(2013 PATTERN)****Time : Two Hours****Maximum Marks : 50****N.B. :—** (i) Q. No. 1 is compulsory.(ii) Attempt any *two* questions from the remaining.

(iii) Figures to the right indicate full marks.

1. The original engineering company is planning to purchase a machine. A choice is made out of two machines A and B. The details of which are given below :

Particulars	A	B
Capital Cost	30,000	30,000
Sales	50,000	40,000
Cost :		
Direct Labour	5,000	3,000
Direct Material	4,000	5,000
Factory Overheads	6,000	5,000
Office Expenses	2,000	1,000
Selling & Distribution Expenses	1,000	1,000
	<u>18,000</u>	<u>15,000</u>

The expected serviceable life of the machine A is 2 years and that of machine B is 3 years.

P.T.O.

The costs relate to annual expenditure to be incurred as a result of a machine. The amount of tax to be paid is 50% of net earnings. It may be assumed that cash is received from sales and paid for the cost in respective years. The appropriate rate of interest for reduced cash flow to present value may be taken as 10%. The present value of Re. 1 @ 10% discount factor are as follows :

1st year — 0.909, 2nd year — 0.826, 3rd year — 0.751.

Show the most profitable investment by applying :

- (1) Pay-back method
- (2) Return on Investment method
- (3) Present value method. [20]

2. Prepare a statement showing the working capital requirements for level of activity of 36,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is given below :

	Cost per unit (₹)
Raw Material	30
Direct Labour	15
Overheads	10
Total	<u>55</u>
Profit	15
Selling Price	<u>70</u>

- (1) Raw material are held in stock, on an average for 3 months.
- (2) Work-in-progress (100% complete in regard to materials and 50% for labour and overheads) will be 15 months production.
- (3) Finished goods are in stock on an average for 2 months.
- (4) Credit allowed by suppliers 3 months.
- (5) Credit allowed to debtors 2.5 months.

- (6) A minimum cash balance of ₹ 30,000 is expected to be maintained.

Prepare a statement of Working Capital Requirement. [15]

3. Capital structure of ABC Co. Ltd. is as follows :

Sources	Amt. (₹)
Equity Share Capital	
(4,000 shares of ₹ 100)	4,00,000
10% Preference Share Capital	2,00,000
Retained Earnings	1,00,000
10% Term Loan	5,00,000
Total (₹)	<u>12,00,000</u>

Dividend per share is ₹ 5. Market price per share is ₹ 120. Tax rate assumed to be 50%. Calculate weighted average cost of capital of company. [15]

4. Existing capital structure of Starmoon Co. Ltd. is as follows :

Equity Share Capital	
(2,000 shares of ₹ 100)	2,00,000
15% Preference Share Capital	5,00,000
14% Term Loan	10,00,000
12% Debentures	3,00,000
Total (₹)	<u>20,00,000</u>

Equity shares of company are quoted at ₹ 150. It is expected that company will pay current dividend @ ₹ 15 per share. A growth rate of 9% was registered in the past which is expected to be maintained. The tax rate applicable may be assumed at 40%. Calculate the Weight Average Cost of Capital (WACC). [15]