



Institute of Management
JK Lakshmipat University, Jaipur
BACKLOG END TERM EXAMINATION - 2019

B.Com (IV sem.) Business Finance
Subject Code: FN 08
MM: 40 Marks

Time: 2 Hours

Instructions: All questions are compulsory.

Section A

1. Multiple Choice Questions (1 marks each)
 - a. Pay back period technique is less attractive than Net Present Value techniques of capital budgeting because
 - i. It does not consider time value of money.
 - ii. It does not consider salvage/terminal value of project.
 - iii. Both i and ii
 - iv. None of the above
 - b. For calculation of Pay back period which profit is considered
 - i. Profit after tax before depreciation
 - ii. Profit after tax and depreciation
 - iii. Profit after depreciation but before tax
 - iv. Profit before tax and depreciation
2. Identify true / false statements and give brief explanation for the same (1 marks each)
 - a. The goal of finance manager is to minimize shareholder value.
 - b. Present value of 100 Rs. today is worth less than 100 Rs. which are about to receive in next 5 years.
 - c. A Project manager should choose a project with lesser NPV than others which are generating higher NPVs.
3. Dividend decision of a company has a great significance in maximizing shareholder's worth? As per your opinion, what factors should be considered while designing dividend pay out ratio in a company? (8 Marks)
4. What are the three financial objectives of business finance? Elucidate activities which are encompassed in each objective (8 Marks)

P.T.O.

Section B

5. A ltd. company considering investing in a project. The expected original investment in the project will be Rs. 1,00,000; the life of project will be 5 years with no salvage value. The expected net profits after tax during the life of the project will be as follows: (9 Marks)

Year	1	2	3	4	5
Rs.	85,000	1,00,000	80,000	80,000	40,000

The project will be depreciated at the rate of 20% on original cost. The company is subjected to 30% tax rate. You are required to

- Calculate payback period and average rate of return based upon average investment
- Calculate the NPV, if cost of capital is 10%
- Calculate PI, if cost of capital is 10%

Section C

Swami Narayanmurthy is the CEO of Murgan group; which is operating, in three diversified areas. Murgan group has three SBUs (Strategic Business Units) named Company A, B and C. Naranyanmurthy wants to maximize shareholder's wealth in each company of his group. Due to peer-pressure, Murgan group is thinking to distribute dividends to shareholders of all three companies. Cost of capital, rate of return and other details are provided by the finance manager of Murgan group. Murgan group wants to declare dividend distribution for different companies. Three dividend payout ratios are suggested by managers i.e. (i) 40%, (ii) 60% and (iii) 90%. Other details are as follows:

A Ltd	B Ltd.	C Ltd.
Rate of Return= 15%	Rate of Return= 10%	Rate of Return= 8%
Cost of Capital= 10%	Cost of Capital= 10%	Cost of Capital= 10%
E = 30 Rs.	E = 30 Rs.	E = 30 Rs.

Question: Using all three dividend payout ratio, advice which one is suitable for which company, keeping in mind Gordon's formula of dividend distribution and provide logical evidence for your choice. (3+3+3+1 Marks)