RM3CF1023 S4 BMS. CF

Duration: - 2 hrs 30 mins **Total Marks: - 75**

Notes: - 1. All questions are compulsory subject to internal choice.

2. Figures to the extreme right indicate full marks.

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Q.1.A. Fill in the blanks with an appropriate option. (Any 8) **08**

1. _____ is also known as value maximization.
   (Profit Maximisation / Wealth Maximisation / Income Increment)
2. Long term investment decision is also known as _____
   (Working Capital / Dividend Decision / Capital Budgeting)
3. Sales – Variable Cost = _____ (EBIT / Contribution / EBT)
4. Net profit after tax is Rs 80,000/- & Tax is Rs 20,000/- then Rate of tax is _____ (10% / 20% / 30%)
5. PV = _____ x _____ (FV x CF / FV x DF / CF x DF)
6. _____ helps to determine the present value of a payment that is to be received at a future date.
   (Discounting / Compounding / Simplification)
7. _____ refers to the mix of a company's debt & equity.
   (Capital structure / Capital Budgeting / Capital stock)
8. Interest on debt is calculated on _____ (Market Value / Face Value / Intrinsic Value)
9. Project is accepted when _____ (NPV > 0 / NPV = 0 / NPV < 0)
10. Retained earnings belongs to _____
    (Preference shareholders / Borrowers / Equity shareholders)

Q.1.B. State whether following statements are True or False. (Any 7) **07**

1. Equity investors are high risk bearer.
2. Bill discounting means providing funds against bill.
3. GDR stands for Global Demand Receipt
4. IRR is easy to calculate.
5. Securities are financial assets.
6. Cost of equity is zero.
7. At break-even point, profit is minimum.
8. MM is difficult to be applied in practice
9. Overcapitalisation does not have any adverse effect.
10. Corporate Finance is used for expansion & Diversification

Q.2.A. JCB Co. has currently equity share capital of Rs 50 lakhs, consisting of 50,000 shares of Rs100/ each. The management is planning to raise another Rs30 lakhs to finance major programme of expansion through one of four possible financing plans. The plans are –

1. Entirely through equity shares of Rs 100/- each
2. Rs15 lakhs through equity shares of Rs100/- each & Rs15 lakhs through long term borrowing @ 8% interest p.a.

3. Rs10 lakhs through equity shares of Rs100/- each & Rs20 lakhs through long term borrowing @ 9% interest p.a.

4. Rs15 lakhs through equity shares of Rs100/- each & Rs15 lakhs through preference shares with 5% dividend

P.T.O.

The company's expected EBIT will be Rs18 lakhs. Assuming a corporate tax @ 50%, determine EPS in each alternative. Suggest which plan is to be implemented on the basis of EPS. **15**

OR

Q.2.B. Calculate all the leverages for following companies. **15**

Particulars	A Co.	B Co.	C Co.
Sales (Rs)	3,60,000	7,50,000	1,00,000
Variable Cost per unit (Rs)	20	150	2
Fixed Cost (Rs)	72,000	1,40,000	15,000
Interest (Rs)	40,000	80,000	NIL
Output (units)	6,000	1,500	10,000

Q.3.A. Aaroha company has the following capital structure

Particulars	Rs
Equity shares (40,000 shares)	8,00,000
6% Preference shares	2,00,000
8% Debentures	6,00,000
Total	**16,00,000**

The shares of the company sells for Rs 20/- It is expected that company will pay next year a dividend of Rs 2 per share which will grow at 7% for ever. Assume 35% tax rate.

1. Compute weighted average cost of capital based on existing capital structure.
2. Compute the new weighted average cost of capital if the company raises an additional Rs4,00,000/- debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs3 & leave growth rate unchanged, but the price of share will fall to Rs15 per share.
3. Compute Cost of Capital if in option 2 above, growth rate increases to 12% **15**

OR

Q.3.B. Calculate Expected Return & Standard Deviation from the following details of Sooraj Ltd. **08**

Economic Conditions	Probability	Rate of Return
Boom	0.3	50%
Normal	0.4	30%
Recession	0.3	20%

Q.3.C. A deposit of Rs10,000/- is made to earn interest @10% p.a. Find out the future value of this deposit if compounding period is – a) Annually b) Half-yearly c) Quarterly d) Monthly e) Daily **07**

Q.4.A. Asha Ltd. is considering 2 mutually exclusive machines. Both require an initial outlay of Rs 1 lakh each & have 5 years life. Required rate of return is 10% Tax rate is 50% Depreciation is straight line method. Calculate NPV & recommend. Cashflow before tax are – **15**

Year	Machine A	Machine B
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

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OR

Q.4.B. Bharat Ltd. is currently under examination of project earning following cash inflows –

Year	Cash inflow
1	16,000
2	16,000
3	18,000
4	18,000
5	15,000

The cost of machinery to be installed works out to Rs2,00,000 & the machine is to be depreciated @ 20% on Written Down Value basis. Income Tax rate is 50% Calculate NPV and recommend. **15**

Q.5.A. What are the Qualities of finance manager? **08**

Q.5.B. Explain the Types of NBFCs **07**

OR

Q.5. Write Short Notes (Any 3) **15**

1. Risk-Return relationship
2. Essentials of optimum capital structure
3. Relationship between finance function & marketing function
4. Distinguish between Operating Leverage & Financial Leverage
5. Traditional methods of capital investment decisions