A1FM1019

Duration:2 ½ Hours **Marks:75**

Note: 1. All questions are compulsory each carrying 15 marks.
2. Use of only simple calculator is permitted.
3. Working notes should form part of your answer.

Q.1 A Fill in the blanks (Any 8) **[08]**

1. There are two objectives of financial management i)____ & ii)_____

2. Payback Method is a __________________Decision tool.

3. Making one deposit today in order to be able to make several withdrawals later is called ______________.

4 If the first deposit of an annuity is made immediately, it is called on ______________.

5 _________ Risk is the risk associated with the firm's operations.

6 Combined leverage is obtained by ___________ of operating leverage & Financial leverage.

7 The least expensive source of short term financing is ____________.

8 The interest rate on _____________is less than the interest rate on a bank loan.

9 The ________ cost is the opportunity cost.

10 Two types of historical rates are used in computing WACC ___&___

Q.1 B True or False (Any 7) **[07]**

1 Profit/EPS maximisation is the sole objective of financial management.

2 Capital Budgeting is the part of Investment decision.

3 Cash flows accruing to the firms at different time periods are directly comparable.

4 Effective rate of interest is positively correlated with frequency of compounding

5 Operating leverage analyse the relationship between sales level & EPS

6 Favourable financial leverage & trading on equity are same

7 Credit purchase can be a good source of short term finance

8 In, India , all types of short term financing from banks must be secured

9 Cost of capital is basic data for NPV technique

10 Cost of existing shares capital &fresh issue of capital are same

Q.2 A A company has to make a choice between three possible investment –Project A, B and C; the immediate capital outlays on each being Rs.11000. Each will continue for 5 years and it has been decided that a discount rate of 10% is acceptable for all three. The cash flows before depreciation for these projects are: **[08]**

Year	A (Rs.)	B (Rs.)	C (Rs.)
First Year	1000	2000	3000
Second Year	2000	3000	4000
Third Year	3000	5000	3500
Fourth Year	4000	3000	2500
Fifth Year	5000	2000	2000

The discount factor at 10% is:

First year 0.909

Second Year 0.826

Third Year 0.751

Fourth Year 0.683

Fifth Year 0.621

Which project would you recommend and why?

Q.2 B A bank promises to give you Rs.11,00,000 after 3 years the rate of 9.5% interest. How much should you deposit today? **[07]**

OR

Q.2 C Find the present value of net cash flow using discounting factor at 8% with the help of information **[08]**

Year	Net Cash Flows(in Rs.)
0	900000
1	570000
2	540000
3	480000
4	340000
5	300000
6	290000
7	250000

Q.2 D A company offers 12% rate of interest on deposits. What is the effective rate of interest if the compounding is done on **[07]**

1.Half-yearly

2. Quarterly

3. Monthly

Q.3 A The capital structure of X Ltd. consists of an Equity Share Capital of Rs.10,00,000 (Shares of Rs.100 par value) and Rs.10,00,000. 10% debentures , sales increased by 20% from 1,00,000 units to 1,20,000 units ,the selling price is Rs.10 per unit, Variable costs amounts to 60% and fixed expenses amounts to Rs. 2,00,000. The income tax rate is assumed to be 40%. **[15]**

(a)You are required to calculate the following :

i)The percentage increase in earning per share:

ii)The degree of operating leverage , financial leverage and combined leverage at 1,00,000 units and 1,20,000 units.

(b) Comment on the behaviour of operating and financial leverage in relation to increase in production from 1,00,000 units to 1,20,000 units.

OR

Q.3 B Mayuri Ltd. has Equity Share capital of Rs 25 lakhs , divided into shares of Rs. 100 each. It wishes to raise further Rs. 10,00,000 for expansion programme. The company plans to the following financing alternatives. **[15]**

1. By issuing Equity Share Capital Only.
2. Rs. 5,00,000 by issuing Equity Shares and Rs. 5,00,000 by 10% debentures.
3. Rs. 5,00,000 Equity Shares, Rs.3,00,000, 8% Preference Share Capital and Rs. 2,00,000, 10% Debentures.
4. Rs. 5,00,000, 10 % Debentures and Rs.5,00,000, 8% Preference Shares Capital.

You are required to suggest the best alternative giving your comments, Assuming that the estimated EBIT after expansion is Rs. 5,00,000 and Corporate Tax rate is 30%.

Q.4 A M Ltd. Issued Rs. 100 lakhs 12% preference shares of Rs. 100 each redeemable at par after 5 years. Calculate the cost of Preference Share in each of the following cases (Assume Dividend tax rate being 20%). **[08]**

Case (a) If Preference Shares are issued at par with no flotation cost.

Case (b) If Preference Shares are issued at par with 5% flotation cost on issue price.

Case (c) If Preference Shares are issued at 10% premium with 5% flotation cost on issue price.

Case (d) If Preference Shares are issued at 10% discount with 5% flotation cost on issue price.

Q.4 B ABC Ltd. Plan to issue 1,00,000 new Equity Share of Rs. 10 each at par . The flotation costs are expected to be 5% of the share price. The company pays a dividend of Re. 1 per share and the growth rate in dividend is expected to be 5%. Compute the cost of new equity share. Also if, the current market price is Rs. 15. Compute the cost of existing equity share . **[07]**

OR

Q.4 C The following is the capital structure of Simons Company Ltd. As on 31.03.2014. **[15]**

Particulars	Rs.
Equity Shares : 10,000 shares (of Rs. 100 each)	10,00,000
10% preference Shares (of Rs. 100 each)	4,00,000
12% Debentures	6,00,000
TOTAL	20,00,000

The market price of the company’s share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared for the year 2014. The dividend growth rate is 6 %.

i)If the company is in the 50% tax bracket ,compute the weighted average cost of capital.

ii) Assuming that in order to finance an expansion plan , the company intend to borrow a fund of Rs.10 lakhs bearing 14% rate of interest , what will be the company’s revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, The market price of the equity share is expected to decline from Rs. 110 to Rs. 105 per share.

Q.5	**A**	Importance of Financial Management	**[08]**
	B	Characteristics of preference share capital	**[07]**

OR

Q.5		**Write short note on (Any Three)**	**[15]**
	1	Wealth Maximisation	
	2	Time Value	
	3	Distinguish between Operating & Financial leverage	
	4	Trade Credit	
	5	Commercial Paper	

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