29/11/22.
A1FM1122

FY BAF Financial mgt
Reg-Sem I Nov 2022.

Duration: 2.5 Hours **Total Marks :75**

NOTE :

1. All the questions are compulsory with internal options.
2. Each question carry 15 marks.
3. Working notes form part of your answer.
4. Use of only simple calculator is allowed.

Q1 a) State whether the following statements are True or False(any eight): **8M**

1. Equal installments at equal intervals will result in any annuity.
2. In India , all types of short term financing from banks must be secured.
3. Cost of retained earnings need not be calculated as it does not involve any cost.
4. All sources of capital have the same cost.
5. Financial leverage depends upon the fixed financial charges.
6. Credit purchase can be good source of short term finance .
7. Cost of Debt is the same as the rate of interest.
8. Risk free rate of interest and cost of capital are same things.
9. Certificate of Deposit is a saleable device in secondary market.
10. Combined leverage should be as low as possible.

Q1(b) Fill in the blanks with appropriate option(any seven): **7M**

1. Which is the most expensive source of funds______________________
   a)New Equity shares b)New Preference shares c)New debts d)Retained Earnings
2. Financial leverage measures relationship between ____________________.
   a)EBIT & PBT b)EBIT & EPS c)Sales & PBT d)Sales & EPS
3. Operating leverage helps in analysis of ____________________.
   a)Business Risk b) Financing Risk c)Production Risk d) Credit Risk
4. Which of the following is a liability of bank ____________________?
   a)Treasury Bills b) Commercial Papers c)Certificate of Deposits d)Junk Bonds
5. The Earning Price ratio approach is used for estimating the cost of ________
   a)Debenture Capital b) Preference capital c)Equity capital d)Term loan.
6. Profit maximization fails because it ignores all EXCEPT _______________.
   a)the timing of the returns b)earning per share c)cash flow available to stockholders d)risk
7. Firm's cost of capital is the average cost of __________________.
   a)All sources b) All borrowings c)Share capital d)Shares, bonds & Debentures
8. The Only viable goal of financial management is __________________
   a)Profit Maximization b)Wealth maximization c) Sales maximization d)Assets maximization
9. Higher OL is related to the use of higher ______________________.
   a) Debt b)Equity c)Fixed Cost d) Variable Cost

10. Profit maximization does not take into consideration ______________

a)risk & cash flow   b)cash flow& stock price   c)risk & EPS   d)EPS & Stock price

Q2 a) From the following prepare Income statement of Company A & B **15M**

Particulars	A	B
Financial leverage	4:1	5:1
Interest	Rs.6,00,000	Rs.7.00,000
Operating leverage	3:1	4:1
Variable cost to sales	66.66%	50%
Income Tax Rate	30%	40%
No.of Equiy shares	1,00,0000	70,000

Also calculate and comment on EPS of the company.

OR

Q2 b) Determine the weighted average cost of capital of Sun and Moon Ltd. On the basis of Book value and Market Value **8M**

Book Value

Type of Capital	Sun Ltd.(Rs.)	Moon Ltd.(Rs.)	Cost Of capital
Debt	4,00,000	3,80,000	10
Preference	2,00,000	1,20,000	8
Equity	6,00,000	8,00,000	13

Tax Rate is 50%

Type of Capital	Sun Ltd.(Rs.)	Moon Ltd.(Rs.)	Cost Of capital
Debt	3,50,000	4,00,000	10
Preference	2,10,000	1,05,000	8
Equity	6,90,000	7,85,000	13

Tax Rate is 50%

Q2 c) Mr. Shine deposits in bank Rs. 5,00,000 for 9 years at 12% rate of interest. How much will he receive after 9 years if the investment is compounded i) semi annually ii) Quarterly **7M**

Q3a) Following is the capital structure of RBT ltd. as on 31st march 2016: **15M**

Particulars	Book Value (Rs.)	Market Value (Rs.)
Equity Shares of Rs. 10 each	50,00,000	1,05,00,000
Retained Earnings	13,00,000	-
11% Pref. shares of Rs. 100each	7,00,000	9,00,000
14% debentures of Rs. 100 each	30,00,000	36,00,000

Market Price of equity shares is Rs. 40 per share & it is expected that a dividend of Rs. 4 per share would be declared . The dividend per share is expected to grow at the rate of 8% every year. Income tax rate applicable to the company is 40% & shareholder's personal income tax rate is 20%.

You are required to calculate :

1.Cost of Capital for each source of capital

2. Weighted average cost of capital on the basis of book value weights.

3. Weighted average cost of capital on the basis of Market value weights.

OR

Q3b) Company 'P' issues 12% , 2000 debentures of Rs. 100 each & company 'Q' issues 15% , 3,000 Debentures of Rs. 100 each. **15M**

The debentures are redeemable after 8 years . both companies are in tax bracket of 30%. Calculate the cost of debt after tax for both companies if the debentures are issued at

i)Par

ii)10% Discount

iii)10% Premium

Q4 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 amount to 60% and fixed expenses amount to Rs. 2,00,000. The income tax rate is assumed to be 40% . **15M**

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 1,00,000 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

Q4) 1.A company offers 12% rate of interest on deposits , What is the effective rate of interest if the compounding is done on **15M**

a)Half yearly

b)Quarterly

c)Monthly

2.As an alternative, the following rates of interest are offered for choice. Which basis gives the highest rate of interest that is to be accepted?

Basis of compounding	Interest Rate
Yearly	12%
Half-Yearly	11.75%
Quarterly	11.50%
Monthly	11.25%

Q5 a)	Explain the Types of Leverages	8M
b)	Limitations of financial management	7M

OR

Q5 c)	**Write short notes on (Any three 5M each)**	15M

1.Prefrence Shares

2. Commercial paper

3.Public deposits

4. Trade Credit

5.Retained earnings