RAIM1223

F-4BAF Sem 1 Nov 2023 FM

Marks: 75 **Duration: 2 ½ Hrs**

Q1. A Match the following (Any 8) **(08)**

	Column A		Column B
1	Equity Share Capital	a	Discounted Cash Flow
2	Debentures	b	Financial Decision
3	Operating Leverage	c	Short Term Source of Finance
4	Cost of Preference Shares	d	EBIT
5	Present Value	e	Owed Fund
6	Operating Cost	f	Combined Leverage/Financial Leverage
7	Advances from Customers	g	Dividend
8	Redeemable Debenture	h	Increase in market Price per Share
9	Investment in New Project	i	Own Fund
10	Wealth Maximisation	j	Contribution

Q1. B State whether the following are true or False (Any 7) **(7)**

1. Discounting technique is utilised to show future value of money invested.
2. Equal instalments at equal intervals will result in any annuity.
3. The main job of finance manager is to make decisions in human resources area.
4. Operating leverage exists if there is an operational fixed cost.
5. Combined leverage should be as low as possible.
6. Cost of retained earnings is not considered for cost of capital.
7. Cash credit for business is temporary advance from the bank.
8. All sources of capital have the same cost.
9. Dividend to equity shareholders reduces tax liability of the company.
10. The objective of financial management is to optimise the use of funds.

Q2. A 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% Preferece Share 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%.

OR

Q2. B The following data is available for ABC LTD: **(15)**

Particulars	Rs.
Sales	5, 00, 000
Variable Cost @ 40%	2, 00, 000
Contribution	3, 00, 000
Fixed Cost	1, 50, 000
EBIT	1, 50, 000
Interest	25, 000
EBT	1, 25, 000

i) Using the concept of operating leverage, calculate by what percentage will EBIT increase if there is 10% increase in sales

ii) Using the concept of financial leverage, calculate by what percentage the taxable income will increase if EBIT increases by 6%.

iii) Using the concept of leverage, calculate by what percentage will the taxable income increase if the sales increase by 8%

Also verify the results in view of the above figures.

Q3. A V Ltd issued Rs.100 lakhs 12% preference shares of Rs.100 each redeemable at a premium of 5% after 5 years. Calculate the Cost of Preference Share each of the following cases: **(15)**
(Assume dividend tax rate being 20%)

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

OR

Q3 B Calculate the Operating leverage, Financial leverage, Combined leverage and Earning after tax under situation A, B and C and financial plans I, II and III respectively from the following information relating to the operation and capital structure of XYZ Co. Also find out the combination of operating and financial leverage which gives the highest value and least value. **(15)**

Installed Capacity	1, 200 units
Actual Production and sales	800 units
Selling price per unit	Rs.15
Variable cost per unit	66 2/3%

Fixed Cost: Situation A	Rs.1, 000
Situation B	Rs.2, 000
Situation C	Rs.3, 000

Particulars	Financial Plan		
	I(Rs)	II(Rs)	III(Rs)
Tax Rate 40%			
Equity	5,000	7, 500	2,500
12% Debentures	5, 000	2, 500	7, 500

Q4. A The capital structure of J Ltd is as under: **(15)**

Equity shares @ Rs.10 each	1, 00, 00, 000
9% Preference shares @ Rs.100 each	30, 00, 000
14% Debentures @ Rs.100 each	70, 00, 000
The market price of these securities are:	
Equity Shares	35 per share
Preference Shares	120 per share
Debentures	110 per debenture

Other information are:

1. Equity Shares have a flotation cost of Rs.5 per share. The next year's expected dividend is Rs.3 with annual growth of 5%. The company pays all earnings in the form of dividends.
2. Preference Shares are redeemable at a premium of 10%, have 2% flotation cost and 10 year maturity.
3. Debentures are redeemable at par, have 4% flotation and 10 per year maturity
4. Corporate tax rate is 30%

You are required to calculate the weighted average cost of Capital using (i) Book value weights and (ii) Market value weights

OR

Q4. B Calculate the cost of new debentures, new preference shares, new equity shares and retained earnings from the point of view of company if anticipated external financing opportunities are as follows: **(15)**

1. 13% debentures Rs.100 each issued at par and redeemable after 5 years at 5% premium. Flotation cost is 5% of issue price.
2. 15% Preference Share of Rs.100 each issued at par and redeemable after 5 years at 5% premium. Flotation cost is 5% of issue price.
3. Equity Share of Rs.10 each issued at Rs.80. Flotation cost is Rs.5 per share. EPS for the current year is Rs.25 per share. Dividend payout Ratio is 60%. Anticipated growth rate is 5%. Corporate tax rate is 40%.

Q5. **A.** What is Equity Capital? What are its advantages and Disadvantages? **(8)**

B. Difference between Operating Leverage and Financial Leverage **(7)**

OR

Q5. **Write Short Notes (Any 3)** **(15)**

1. Retained Earning
2. Commercial Paper
3. Public Deposit
4. Debentures and Bonds
5. Time Value of Money