F.Y.BAF - Sem I - Reg/A.T.K.T. Exam - Nov'22

FYBAF – Semester 1

Financial Management.

14.11.22

Time: 2 ½ Hours 75 marks

Note:

All questions are compulsory.

Figures to right indicate marks.

Q1. A. Fill in the blanks (any 8) 8 marks

1. __________ (Profit/ Wealth) maximization does not take into consideration risk and cash flow.
2. There are two objectives of financial management: (i) ______ maximization and (ii) _______ maximization.
3. The concept of making a series of deposits for the purpose of making one withdrawal in the future, today's deposit is called ___________
4. If the rate of interest is 16% compounded quarterly and deposits will be made for 5 years, the table rate is and the number of periods is ____________
5. ____________ leverage involves the use of fixed cost of financing.
6. FL is zero, if ___________ (EBIT/EPS) is zero.
7. The type of collateral (security) used for short term loan is______________
8. Concept of maximum permissible bank finance was introduced by __________
9. The formula I (1 – t) helps to compute the cost of ___________
10. The theory of underlying the cost of capital is primarily concerned with the cost of _____ (Long term / Short term)

B True or False (any 7) 7 marks

1. Financing decisions involve the most appropriate mix of current and fixed assets.
2. The wealth of corporate owners is measured by the share price of the stock.
3. Profit/ EPS maximisation is the sole objective of financial management.
4. Time value of money signifies that the value of a unit of money remains unchanged during different time periods.
5. Cash flows accruing to the firms at different time periods are directly comparable.
6. Present value tables for annuity can be directly applied to mixed stream of cash flows.
7. Financial leverage depends upon the fixed financial charges.
8. EBIT is also known as operating profits.
9. Indifference level of EBIT is one at which EPS under two or more financial plans would be same.
10. Bill discounting is a good source of short-term finance to all firms.

Q2. A. Find the present value of net cash flow using discounting factor as 15% with the help of information given below: 8 marks

Year	Net cash flows (in Rs)
1	1,80,000
2	1,70,000
3	1,45,000
4	1,24,000
5	1,10,000
6	1,02,000
7	95,000
8	92,000

B. Charu invested Rs. 2,40,000 at annual rate of interest 10%. What is the amount after 3 years if compounding is done annually? **7 marks**

OR

C. Calculate the operating leverage, financial leverage and the combined leverage for the following firms: **15 marks**

Particulars	N	S	D
Production (in units)	17,500	6,700	31,800
Fixed cost (Rs.)	4,00,000	3,50,000	2,50,000
Interest Loan (Rs.)	1,25,000	75,000	Nil
Selling Price unit (Rs.)	85	130	37
Variable cost per unit (Rs.)	38.00	42.50	12.00

Q3. A) The capital structure of RST Ltd. is as follows. **15 marks**

Particulars	Rs.
Equity shares of Rs. 10 each	8,00,000
10% Preference Share of Rs. 100 each	5,00,000
12% Debentures of Rs. 100 each	7,00,000

Additional Information:

Profit after tax (Tax rate 30%) are Rs. 2,80,000.

Operating expenses (including Depreciation Rs. 96,800) are 1.5 times of EBIT.

Equity divided paid is 15%.

Market Price of Equity Share is Rs. 23.

Calculate:

1. Operating and Financial Leverage.
2. Cover for Preference and Equity Dividend.
3. The Earning Yield Ratio and Price Earnings Ratio.

Note: All operating expenses (excluding depreciation) are variable.

OR

B) East India industries Ltd. is a profit-making company with a paid-up capital of Rs. 100 Lakhs Consisting of Rs. 10 Lakh ordinary shares of Rs. 10 each. Company is earning an annual pre-tax profit of Rs. 60 Lakhs. The company's shares are listed and are quoted in range of Rs. 50 to Rs. 80. The management wants to diversify production and has approved a project which will cost Rs. 50 lakhs and which is expected to yield a pre-tax income of Rs. 40 lakh p.a. To raise this additional capital, the following options are under consideration of the management: 15 marks

a) To issue equity capital for the entire additional amount. It is expected that the new shares (face value of Rs. 10) can be sold at a premium of Rs. 15.
b) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.
c) To issue equity capital for Rs. 25 lakhs (face value of Rs. 10) and 16% non-convertible debentures for the balance amount. In this case the company can issue shares at a premium of Rs. 40 each.

Advise the management as to how the additional capital can be raised. Show working.

Note: The management wants to maximize the earning per share to maintain its goodwill. The company is paying income tax at 50%.

Q4.

A) You are required to determine the weighted average cost of capital of a firm using (i) book value weights and (ii) market value weights. The following information is available for your perusal. 15 marks

Present book value of the firm's capital structure is:

Particulars	Rs.
Debentures of Rs. 10 each	8,00,000
Preference Share of Rs. 100 each	2,00,000
Equity shares of Rs. 10 each	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are: Debentures @ Rs. 110, preference shares @ Rs. 120 and Equity shares @ Rs. 22

Anticipated external financing opportunities are as follows:

(i) Rs. 100 per debenture redeemable at par: 2 years maturity 8% coupon rate, 4% flotation costs, sale price Rs. 100.

(ii) Rs. 100 preferences share redeemable at par: 15 years maturity, 10% dividend rate, 5% flotation costs, sales price Rs. 100.

In addition, the dividend expected on the equity share at the end of the year is Rs. 2 per share; The cost of Floating equity share is Rs.2 the anticipated growth rate in dividends is 5% and the firm has the practice of paying all its earnings in the form of dividend. The corporate tax rate is 50%.

OR

B) A company had the following balance sheet as on March 31, 2014. 15 marks

Liabilities and Equity	Rs. In crores	Assets	Rs. In crores
Equity share capital (one crore shares of Rs. 10 each)	10	Fixed Assets (Net)	25
Reserve and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		
Total	40.00		40.00

The additional information given is as under:
Fixed Costs per annum (excluding interest) .... Rs. 8 crores
Variable operating costs ratio..................... 65%
Total Asset turnover ratio........................ 2.5
Income tax rate 40%
Calculate the following and comment: (i) Earnings per share (ii) operating leverage (iii) financial leverage (iv) Combined leverage.

Q5. 15 marks

A) Explain the methods and tools of financial management. 8 marks
B) Difference between operating and financial leverages. 7 marks

OR

C) Short notes. (Any 3) 15 marks
a) Time value of money
b) Limitation of financial management

c) Leverages
d) Sources of Finance
e) WACC