S.Y. BBI - SEM III - Reg/A.T.K.T. - Feb' 20

CLASS: SYBBI | SEMESTER: III | A.Y. – 2019-2020

SUBJECT: FINANCIAL MANAGEMENT 1 F. Mgmt - 1 MARKS: 75

13. 2. 20

Q.1: A) FILL IN THE BLANKS (ANY 8) (8)

1. ______________________ considers time value of money.
2. Zero Growth Model is known as ________________.
3. Constant growth model is known as __________________________
4. ________________ decisions involve large outlay of funds now in anticipation of cash inflows in future.
5. ________________ & revenue generation are two important categories of capital budgeting.
6. Capital structure of a company should generate __________________ to the shareholders.
7. Cost incurred for financing the project is ____________
8. Relationship between changes in sales & operating profit is known as ______________
9. If P is Rs 100 and i is 10%, FV after 1-year period will be _________
10. Cost of capital for bonds and debentures is calculated on ____________________

Q.1: B) STATE WHETHER TRUE OR FALSE (ANY 7) (7)

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. According to Cohen and Robbins, Financial planning should develop the best plans to obtain the required external funds-
4. The market value of a firm reflects not only the Expected EVA of assets in place but also the Expected EVA from future projects-
5. Time value of money signifies that the value of a unit of a money remains unchanged during different periods of time-
6. Effective rate of interest is positively correlated with frequency of compounding-
7. One of the demerits of the NPV Method for capital Budgeting is that it is sensitive to Discount Rates-
8. The process of making capital investment decisions is referred to as capital budgeting-
9. The residual value is considered in a net present value computation-
10. Tax liability of the firm is relevant for cost of capital of all the sources of funds-

Q.2: V&R Ltd. has equity shares of Rs 1000 each for Rs 5 crores. It wishes to raise further Rs 3 crores for expansion scheme. The company plans the following alternatives: (15)

A) By issuing equity shares only.
B) By issuing equity shares of Rs 1 crore and Rs 2 crores through debentures of 10% pa.
C) By raising a term loan @ 20% pa.
D) By issuing equity shares of Rs 1 crore and Rs 2 crores worth of 10% preference shares.

You are required to suggest the best alternative giving your comment assuming EBIT after expansion will be Rs 1.5 crores and corporate tax as 35%

OR

Q.2: VEER Ltd. needs Rs 5,00,000 for commissioning of a new plant. The following three financial plans are feasible: (15)

A) The company may issue 50,000 equity shares of Rs 10 per share
B) The company may issue 25,000 equity shares at Rs 10 per share and 2,500 debentures of Rs 100 denomination bearing an 8% rate of interest.
C) The company may issue 25,000 equity shares at Rs 10 per share and 2,500 preference shares at Rs 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes are Rs 10,000, Rs 20,000, Rs 40,000, Rs 60,000 and Rs 1,00,000. What are the earnings per share under each of three financial plans? Which alternative would recommend and why? Assume corporate tax rate @ 50%

Q.3: Navneet Ltd. Is considering a project which costs Rs 5,00,000. The proposed project has cash inflows are as follows: (15)

Year end	Cash Inflow
1	1,50,000
2	2,50,000
3	2,50,000
4	2,00,000
5	1,50,000

Assume Cost of Capital 10%. Calculate:

1. Payback period
2. Payback profitability
3. NPV
4. Discounted Payback Period

OR

Q.3: A) H&M Ltd presents you the following information: (8)

Particulars	Rs
Investment required	60,000
Estimated Life in years	5 years
Expected Sales per year	80,000
Direct Material expenses	32,000
Direct Wages	10,000
Overheads	15,000
Depreciation	12,000
Income Tax	30%

Expected Rate of Return @ 10%. Calculate:

1. Payback Period
2. Profitability Index

Q.3: B) A company has an investment project costing Rs 40,000 with the following expected net cash inflow: (7)

Years	Net Cash Inflow
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as cost of capital, determine the following

1. NPV
2. Profitability Index

Q.4: From the following capital structures of Micky Ltd and Donald Ltd. Calculate WACC of both the companies as per Book Value and Market Value Method : (15)

Micky Ltd

Source	Book Value	Market Value	After Tax Cost Of Capital
Equity share Capital	18,00,000	36,00,000	14%
Retained Earnings	6,00,000	-	13%
Preference Capital	4,00,000	4,00,000	10%

Debentures	12,00,000	12,00,000	5%

Donald Ltd

Source	Book Value	Market Value	After Tax Cost Of Capital
Equity share Capital	2,40,000	4,80,000	13%
Retained Earnings	80,000	-	9%
Preference Capital	40,000	44,000	8%
Debentures	1,60,000	1,52,000	5%

OR

Q.4: A) From the following data, determine the optimum debt-equity mix **(8)**

Debts as of total capital	Interest rate	Cost of capital
0	-	12
10	10	12
20	11	13
30	12	14
40	12.5	14.5
50	13	15
60	14	20

Q.4: B) Find the effective rate of 12% if the interest is compounded: **(7)**

a) Yearly
b) Half yearly
c) Quarterly
d) monthly

Q.5: A) What are the determinants of capital structure? **(8)**

B) State the objectives of financial management. **(7)**

OR

Q.5: Write short notes on: (ANY 3) **(15)**

a. Payback period
b. MM approach
c. Weighted Average cost of capital
d. Certificate of deposits
e. Time value of money