S.Y.BBI - Sem III - A.T.K.T. Exam - Mar'2023
Dt:- 25/3/23

FINANCIAL MANAGEMENT

Time: 2 ½ Hrs. Marks: 75

N.B.: 1. All questions are compulsory subject to internal choice.
2. Figures to right indicate full marks

Q.1.A. State whether the following statement are true or false: (any 8) (8)

i. Liquidity has no effect on dividend policy.
ii. MM approach assume that capital market is perfect.
iii. All sources of capital have the same cost.
iv. Capital Rationing is selection of investment proposal under constaints.
v. Long term decision involves heavy risk.
vi. Both IRR and NPV can be zero.
vii. Equal instalment at equal intervals will result in an annuity.
viii. MVA is external measure of performance.
ix. Capital budgeting is the function of finance.
x. Venture Capital is risk Capital.

B. Match the column. (Any 7) (7)

Column 'A'	Column 'B'
1. IRR	a. Involves credit risk
2. Preference Capital	b. Primary objective of FM
3. Own capital	c. Corporate Surplus
4. Historical Cost	d. To get doubling period
5. Capital Rationing	e. Huge Capital
6. Decision Making involves	f. Risk
7. Rule of 72	g. Selection of Investment Proposal under constraints
8. EVA measures	h. Cost which has been incurred
9. Value Maximisation	i. Equity capital
10. Hybrid Finance	j. Fixed dividend
	k. Internal Rate of Return

Q.2) (A) Vidhi Ltd. provides you the following information as on 31st march, 2016 (15)

Balance Sheet as on 31-3-2016

Liabilities	(Rs Lakhs)	Assets	(Rs Lakhs)
Share Capital	1,000	Fixed Assets	2,250
Reserve & Surplus	1,300	Current Assets	750
Long- Term Debt	200		
Creditors	500		
	3,000		3,000

Additional Information

1. Profit interest and taxes Rs. 2,000 lakhs.
2. Interest paid Rs. 30 lakhs.
3. Tax rate 30%.
4. Risk Free Rate 11%.
5. Long-Term Market Rate = 12%.
6. Beta (β) = 1.62

You are required to calculate the Economic Value Added

OR

Q.2. (B) A company is considering which of two mutually exclusive projects it should undertake. The finance directors thinks that the project with the higher VPN should be chosen whereas the managing directors thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after-tax cash flows of the projects are as follows: (15)

Year	0	1	2	3	4	5
(Cash Flows Fig. `000)						
Project X	(200)	35	80	90	75	20
Project Y	(200)	218	10	10	4	3

Required:

a. Calculate the NPV and IRR of each project.
b. State, with reason, which projects you would recommend.

The discount factors are as follows:

Year	0	1	2	3	4	5
Discount Factors						
(10%)	1	0.91	0.83	0.75	0.68	0.62
(20%)	1	0.83	0.69	0.58	0.48	0.41

Q.3) (A) Following Information relates to cash flows of project X and Y with their associated probabilities which project should be accepted? (15)

Possibility	Project X		Project Y	
	Cash Flow Rs.	Probability	Cash Flow Rs.	Probability
1	70,000	0.10	1,20,000	0.10
2	80,000	0.20	80,000	0.10
3	90,000	0.30	60,000	0.10
4	1,00,000	0.20	40,000	0.20
5	1,10,000	0.20	20,000	0.50

OR

Q.3) (B) Anil Ltd has Rs. 5, 00,000 allocated for capital budgeting purposes. The following proposals and associated profitability index have been determined. (15)

Project	Amount	Profitability Index
1	1,50,000	1.22
2	75,000	0.95
3	1,75,000	1.20
4	2,25,000	1.18
5	1,00,000	1.20
6	2,00,000	1.05

Which of the above investments should be undertaken in order to maximise NPV, assume that the projects are (a) indivisible (b) divisible.

Q.4) (A) One-up Ltd. has equity share capital of Rs. 5, 00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3, 00,000 for expansion-cum modernisation scheme. The company plants the following financing alternatives: (15)

a. By issuing equity shares only.
b. Rs. 1, 00,000 by issuing equity shares and Rs.2, 00,000 through debentures or term loan @ 10% per annum.
c. By raising term loan only at 10% per annum.
d. Rs. 1, 00,000 by issuing Equity Shares Rs, 2, 00,000 by issuing 8% Preference Shares.

You are required to suggest the best alternative giving your comment assuming that the estimated earnings before interest and taxes (EBIT) after expansion is Rs. 1,50,000 and corporate rate of tax is 35%

OR

Q.4) (B) Details regarding three companies are given below: (15)

A Ltd.	B Ltd.	C Ltd.
R = 15%	r = 10%	r = 8%
Ke = 10%	Ke = 10%	Ke = 10%
E = Rs. 10	E = Rs. 10	E = Rs. 10

By using Walter's Model, you are required to calculate the value of an equity share of each of these companies when dividend payout ratio is:

a. 20%
b. 50%
c. 0% and
d. 100%

Q.5. a. Explain the sources of funds according to the ownership. (8)

b. Explain types of Preference shares (7)

Or

Q.5.c. Short Notes (any 3) (15)

i. Capital Rationing
ii. Hire Purchase
iii. Depository Receipts
iv. Hybrid Financing
v. Weighted average cost of capital