FYBAF Sem I Reg & A.T.K.T. Exam Oct-2019.
10/10/19.

FYBAF Sem- I Financial management.

Time : 2 and half hours Marks : 75

Note :1) All questions are compulsory , subject to internal choice

2) Working notes should form part of your answer.

3) Figures to the right indicate full marks.

4) Use of simple calculator is allowed.

Q-1 (a) Fill in the blanks (any 8) (8)

1) Capital budgeting is a part of ____________________decision.
2) Payback method is a ____________________decision tool.
3) ______________________(profit/wealth) management does not take into consideration risk and cash flow.
4) The rate charged by banks to their best clients is called the ______________interest rate.
5) Making one deposit today in order to be able to make several withdrawals later is called ______________
6) ____________________leverage involves the use of fixed cost of financing.
7) Financing a business through borrowing is _____________________(cheaper/costlier) than using equity.
8) Marginal cost of capital is concerned with the cost of _____________________(existing /additional) funds.
9) No tax adjustments are necessary for the computation of the costs of _________________and the preference stock.
10) The formula I (1 -t) helps to compute the cost of ________________

Q-1(b) State true or False (Any 7) (7)

1) Profit /EPS maximasation is the sole objective of financial management.
2) Financing decisions involve the most appropriate mix of current and fixed assets.
3) Time value of money signifies that the value of a unit of money remains unchanged during different time
4) Cash flows accruing to the firms at different time periods are directly comparable.
5) Operating leverage analyses the relationship between sales level and EPS.
6) EBIT is also known as operating profits.

7) Bill discounting is a good source of short term finance to all firms.
8) Credit purchase can be good source of short –term finance.
9) Different sources of funds have a specific cost of capital related to that source only.
10) Cost of equity capital does not comprise any risk premium.

Q-2 (a) Beeta Ltd. has furnished the following information (15)

Earning per share (EPS)	Rs.4
Dividend pay out ratio	25%
Market price per share	Rs. 40
Rate of tax	30%
Growth rate of dividend	8%

The company wants to raise additional capital of Rs.10 lakhs including debt of Rs 4 lakhs. The cost of debt (before tax) is 10% upto Rs.2 lakhs and 15% beyond that.

Compute the after tax cost of equity and debt and the weighted average cost of capital.

OR

Q-2 (b) JKL Ltd has the following book-value capital structure as on March 31, 2014. (15)

Equity share capital (2,00,000 shares)	Rs. 40,00,000
11.5% Preference shares	Rs.10,00,000
10% Debentures	Rs.30,00,000
	Rs.80,00,000

The equity share of the company sells for Rs.20 . It is expected that the company will pay next year a dividend of Rs. 2 per equity share, which is expected to grow at 5% p.a forever. Assume a 35% corporate tax rate.

Required

i) Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.

ii) Compute the new WACC ,if the company raises an additional Rs.20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs.2.40 and leave the growth rate unchanged , but the price of equity share will fall to Rs.1 per share.

Q-3 (a) Z Limited is considering the installation of a new project costing (15) Rs.80,00,000 .Expected annual sales revenue from the project is Rs.90,00,000 and its variable cost are 60 percent of sales. Expected annual fixed cost other than interest is Rs.10,00,000

.Corporate tax rate is 30 percent . The company wants to arrange the funds through issuing 4,00,000 equity shares of Rs.10 each and 12 percent debentures of Rs.40,00,000. You are required to calculate the operating , financial and combined leveraged and Earning per share (EPS) .

OR

Q-3 (i) You deposit Rs.1,000 annually in a bank for 3 years and your deposits earn a compound interest rate of 10% . What will be an annuity at the end of 3 years. ? (3)

Q-3 (ii) You deposit Rs 3,000 annually in a bank for 8 years and your deposit earns a compound interest rate of 12% . what will be annuity at the end of 8 years. (3)

Q-3 (iii) Calculate compound interest on Rs.5,000 in 6 years at 9 % p.a . (3)

Q-3 (iv) A finance company advertises that it will pay a lump sum of Rs.8,000 at the end of 6 years to Investors who deposit annually Rs.1,000 for 6 years. What interest rate is implicit in this offer? (3)

Q-3 (v) Calculate compound interest on Rs.5,000 in 6 years at 9% p.a (3)

Q-4 (a) Risk Ltd . plans to issue 2000 new equity shares of Rs.100 each at par. The (4) floatation cost is expected to be 5% of the share price. The company pays a dividend of Rs.10 per share initially and the growth in dividends is expected to be 5% .Compute the cost of new equity shares.

If the current market price of an equity share is Rs. 160 , calculate the cost of existing equity share capital.

AND

Q-4 (b) (i) Redemption Ltd. issued Rs. 100 lakhs 14% Debentures of Rs.100 each. Tax rate is 40% . Calculate cost of Debt if issue is at par with 5% floatation cost (2)

Q-4 (ii) Redemption Ltd. issue Rs. 100 lakhs 14% Debentures of Rs. 100 each. Tax rate is 40%.Calcualte cost of Debt if issue is at 10% premium with 5% floatation cost. (3)

Q-4 (iii) Redemption Ltd. issued Rs..100 lakhs 14% Debentures of Rs.100 each. Tax rate is 40% . Calculate cost of debt if debentures are issued at 10 % Discount with 5% floatation cost. (3)

OR

Q-4 Calculate the operating leverage, financial leverage and the combined leverage for the following firms. : (15)

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

Q-5 Describe objectives of Financial management. (15)

OR

Q-5 Write short notes on : (any 3) (15)

1) Methods and tools of Financial management.
2) Overdraft
3) Debentures - Its meaning
4) Types of Risk
5) Characteristics of Equity capital