S.Y. BBI - SEM III - Reg. Exam - Oct 2018 + ATKT.

Paper / Subject Code: 79709 / Financial Management - I

Max. Marks: 75 Time: 2Hrs.30Min.

Instructions:

A. All questions are compulsory subject to internal choice.
B. Figures to the right indicate full marks.

Q.1. (a) State whether the following statements are true or false. **(any 8)** (08)

1. Debentures represent borrowed capital of a company.
2. Zero coupon Bonds reflect deep discount bonds.
3. GDR is an instrument which is linked to equity.
4. Letter of Credit is issued by exporter's bank.
5. NPV= Net PAT –Initial Investment.
6. Bonus shares are issued to preference shareholders.
7. NPV method considers time value of money.
8. Capital budgeting decisions are long term decisions.
9. Depreciation is a non cash item.
10. Cost of debt is cheaper than equity.

Q.1. (b) Match the columns. **(Any 7)** (07)

A	B
a) Payback period	1. Stakeholders
b) Gordon Model	2. Tax saving
c) Debentures	3. Does not consider time value of money.
d) Interest	4. Borrowed capital.
e) Preference share capital	5. Dividend policy.
f) Government	6. Secured loan
g) Turnover	7. Equity shareholders
h) Deep discount bonds	8. Sales
i) Pledge	9. Fixed Dividend
j) Bonus shares	10. Long term bonds

Q.2A. Following is the capital structure of Zeenat company Ltd. (15)

Equity Share capital - Rs. 20,00,000 (FV 10)
6% Preference share capital – Rs. 5,00,000 (FV 100)
8% Debentures - Rs. 15,00,000 (FV 1000)

Equity share of the company sells at price which is 5 times higher than its face value.
Expected dividend @ 50% p.a with constant growth rate to be 7% p.a Assume Tax rate to be 35%.

(a) Calculate weighted average cost of capital (WACC) in the above situation.
(b) Calculate revised WACC if the company wants to raise additional capital of Rs. 10,00,000 through 10% debenture. In this situation, expected dividend would be Rs. 6 per share. Market price would fall by Rs 20 per share. Growth rate remains unchanged.
(c) Compute WACC considering all the facts in situation (b) only if the growth rate changes to 12%.

OR

Q. 2B. From the following capital structure of Aarti Ltd and Varsha Ltd , Calculate WACC of both the companies as per Book Value and Market value method. (15)

(Aarti Ltd)

SOURCE	BOOK VALUE (RS.)	MARKET VALUE (RS.)	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%

(Varsha Ltd)

SOURCE	BOOK VALUE (RS.)	MARKET VALUE (RS.)	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%

Q.3A. With the help of following information Project PQR and XYZ you are asked to evaluate the same using capital budgeting techniques of Payback period, NPV and Profitability Index. Based on the results choose the most feasible project. (15)

Initial Investment for both the projects = Rs. 4,00,000

Life of both the projects = 5 Years.

Cost of Capital = 10%.p.a

YEAR	CASH INFLOW (PQR) (Rs)	CASH INFLOW (XYZ) (Rs)
5	40,000	26,000
4	1,50,000	28,000
3	1,80,000	80,000
2	1,60,000	1,20,000
1	70,000	2,36,000

OR

Q.3. B. From the following information of Lata company Ltd, calculate (08)

(i) Payback period . (ii) ARR.

Estimated Life = 5 years Initial investment = Rs. 10,00,000

Year	Net profit after tax and depreciation. (Rs.)
1	60,000
2	1,00,000
3	1,40,000
4	1,80,000
5	2,20,000

Depreciation is calculated on SLM basis.

Q.3. C. Mr. Mukesh deposited Rs. 40,000 to earn interest at 12 %. Find out the Future value of his amount if the interest is compounded--- (07)

(i) Annually (ii) Half yearly (iii) Quarterly

Q.4A. Following is the existing capital structure of Surbhi Co. Ltd. (15)

Equity Share Capital of Rs. 100 each	-	Rs. 80,00,000
Retained Earnings	-	Rs. 20,00,000
9% Preference share capital (FV Rs 100)	-	Rs. 50,00,000
7% Debentures (FV Rs 1000)	-	Rs. 50,00,000

Return on capital Employed is 12%. Tax rate is 50%. Company wants to expand its business for which it requires additional capital of Rs. 50,00,000

It has Following 3 options for the same.

(i) Issue entirely through 40,000 equity shares of Rs. 125 each.
(ii) Issue entirely through 10% preference share capital.
(iii) Issue entirely through 9% Debentures.

Calculate EPS of all the plans and select the best one.

OR

Q.4.B. Following is the information of Shanayaa Co. Ltd. (08)

Rate of return on investment = 10 %
Cost of Capital (Ke) = 10%
Earnings per share = Rs. 10

Calculate the value (market price) of the shares using walter model when dividend payout is----

(i) 50%
(ii) 100%

Q.4.C. Calculate EVA from the following. (07)

Average Debt (Rs. In crores)	-	200
Average Equity (Rs. In crores)	-	11)(4
Cost of Debt (Post tax)	-	7.72 %
Cost of Equity	-	16.54%
Profit after tax (Rs. In crores)	-	61.64
Interest (Rs. In crores)	-	20

Q.5. (a) Explain sources of funds according to the ownership. (08)
Q.5 (b) Explain types of Preference shares. (07)

OR

Q.5. Short notes **(any 3)** (15)

(i) Any 5 types of risks.
(ii) Capital Rationing
(iii) Hire Purchase
(iv) Certificate of Deposits
(v) Depository Receipts

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