SYBBI sem III Reg & A.T.K.T. Exam Oct-2019.

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

SUBJECT: FINANCIAL MANAGEMENT 1 MARKS: 75

16/10/19.

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

1. When suppliers extend credit to the buyers it is called ________________.
2. Zero Growth Model is known as ________________.
3. Average of the two values is known as ____________ value.
4. ____________ ignores time value of money.
5. Capital Budgeting decisions involve huge amount of risk due to ________________.
6. Cost of Capital refers to ________________.
7. Cost of issuing new shares to the public is known as ________________.
8. Financial break-even level of EBIT is one at which ______________.
9. The future value of Rs. 5,000 after 10 years from now at 8% rate of interest will be ____________.
10. ________________ = operating income (1 – tax rate)/capital invested.

Q.1 B) State whether true or false (ANY 7) **(7)**

1. The profit maximization goal ignores the timings of returns, does not directly consider cash flows and ignores risk –
2. Bill discounting is a good source of short term finance to all firms –
3. Present value tables for annuity can be directly applied to mixed stream of cash flows –
4. The NPV method of evaluating projects considers time value of money –
5. Indifference level of EBIT is one at which EPS is 0 -
6. WACC is the overall cost of capital of the firm-
7. MM model is difficult to be applied in practice –
8. Dividend to equity shareholders reduce tax liability –
9. Valuation of securities should be made within the risk & return criteria –
10. NPV & IRR give identical decisions –

Q.2: A company needs Rs. 12 lakhs for installation of the new factory (15)
which would yield an annual EBIT of Rs 2,00,000. The company has objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of Rs 2,00,000, Rs 6,00,000 or Rs 10,00,000. The current market price per share is Rs 40 which is expected to drop to Rs 25 per share if the market borrowings were to exceed Rs 7,50,000.

Cost of debt are indicated as under:

Upto Rs 2,50,000- 10%

Between 2,50,001 to 6,25,000 – 14%

Above 6,25,001 – 16%

Assuming a tax rate of 50% workout the EPS and the scheme which would meet the objective of the management.

OR

Q.2: Goodshape company has currently an ordinary share capital (15)
of RS 25,00,000 consisting of 25,000 shares of Rs 100 each. The management is planning to raise another Rs 20,00,000 to finance major programme of expansion through one of four possible financing plans. The plans are as follows:

a. Entirely through ordinary shares.
b. Rs 10,00,000 through ordinary shares and Rs 10,00,000 through 8% long-term borrowings.
c. Rs 5,00,000 through ordinary shares and Rs 15,00,000 through 9% debentures.
d. Rs 10,00,000 through ordinary shares and Rs 10,00,000 through 5% preference shares.

The companys expected earnings before interest and taxes will be Rs 8,00,000. Assuming a tax rate of 50%, determine EPS and comment which would be more preferable.

Q.3: A company has to make a choice between three possible (15)
investment – projects A, B and C. The immediate capital outlay on each being Rs 11,000. Each will continue for 5 years and it has been decided that discount rate of 10% is acceptable for all three. The cash flows before depreciation for these projects are:

Years	A	B	C
1	1,000	2,000	3,000
2	2,000	3,000	4,000
3	3,000	5,000	3,500
4	4,000	3,000	2,500
5	5,000	2,000	2,000

Calculate NPV and suggest which project would you recommend and why?

OR

Q.3: A) Calculate from the following information of XYZ Ltd: (8)

- Payback period
- Payback profitability

Cost of machine = Rs 2,00,000
Salvage value = Rs 20,000
Rate of depreciation @ 10% WDV basis
Income tax rate is 40%
Annual profit before depreciation and tax for six years are Rs 70,000, Rs 90,000, Rs 96,000, Rs 78,000, Rs 62,000 and Rs 50,000.

Q.3: B) Maps manufacturing company wishes to purchase a machine. You are to advise the directors from the following information supplied to you: (7)

Years	Cash inflows
1	1,000
2	3,000
3	3,000
4	3,000
5	3,000
6	4,000

Initial outlay: Rs 10,000. Cost of capital is 10%.
Calculate: NPV and PI

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) SK Ltd has obtained funds from the following sources, the specific cost are also given against them: **(8)**

Sources of funds	Amount in RS	Cost of capital
Equity shares	30,00,000	15%
Preference shares	8,00,000	8%
Retained earnings	12,00,000	11%
Debentures	10,00,000	9% (before tax)

You are required to calculate WACC, assuming tax rate @ 30%

Q.4: B) Abish Ltd estimated the cost of equity and debt components of its capital for different levels of debt-equity mix as follows: **(7)**

Debt as of total capital	Cost of equity	Cost of debt (before tax)
0	16%	12%
20	16%	13%
40	20%	14%
60	20%	15%
80	24%	16%
100	24%	17%

Tax rate applicable to the company is 50%. Suggest the best debt – equity mix for the company.

Q.5: A) Explain the payback method of evaluating capital investment. **(8)**

B) Write needs and sources of finance **(7)**

OR

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

a. Venture capital
b. Profit maximization
c. Pecking order theory
d. Cost of capital
e. Capital rationing