**SUBJECT: FINANCIAL MANAGEMENT**

**SYBBI SEMESTER III**

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

Instructions: - (a) All subjects are compulsory subject to internal choice.
(b) Figures to the right indicate full marks.

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

1. Dividends are the cash flows returned to the shareholders.
2. Investor's are risk averse.
3. The ratio of debt and equity must be equal
4. Capital not bearing risk relates to equity share capital.
5. Cost of equity is zero.
6. Preference share capital has fixed rate of interest.
7. The payback period considers time value of money.
8. All IRR, the NPV of the project is zero.
9. A bond payable is a mere promise to pay.
10. Profit maximization is the goal of financial management.



Q.1.b) fill in the blanks. (any 7) (7)

1. An ____________ company is one which incurs exceptionally high profits as compared to industry.
2. NPV considers ____________ of money.
3. Finance functions is performed in all the ____________.
4. Capital structure decisions are taken in view of the purpose of ____________.
5. ____________ is a goal of financial management.
6. Risk and ____________ always goes hand to hand.
7. Investments are shown in the ____________ side of the Balance Sheet.
8. As the discount rate ____________, the NPV of the project increases.
9. The formula of Dividend Payout Ratio is ____________.
10. Standard debt equity ratio is ____________.

Q.2.A) From the following details calculate: (15)

a. Net Present Value at discounting factor of15%
b. Profitability Index

| Year | Annual Cash Flow Project A | Annual Cash Flow Project B | Annual Cash Flow Project C |
|---|---|---|---|
| Cash out flow | 17,50,000 | 20,00,000 | 10,00,000 |
| 1 | 11,00,000 | 14,50,000 | 8,50,000 |
| 2 | 7,50,000 | 11,50,000 | 7,50,000 |
| 3 | 4,00,000 | 9,50,000 | 5,00,000 |
| 4 | 3,00,000 | 6,00,000 | 3,50,000 |

Expected life of each project is 4 years. Also rank the projects.

**OR**

Q.2.B)AB company needs Rs. 10 crores for the construction of a new plant. The following three financial plans are feasible. (15)

a. The company may issue 1 lakh ordinary shares of Rs.10each.
b. The company may issue 50,00,000 ordinary shares of Rs.10 and remaining amount may be collected by issue of 5,00,000 debentures of Rs.100 each bearing an 8% rate of interest.
c. The company may issue 50,00,000 ordinary shares @Rs.10 each and remaining amount as preference shares of Rs.10 each bearing an 8% rate of dividend.
If the expected EBIT, which the company may earn is Rs.80,00,000 then suggest which capital structure alternative the company should select. Assume tax rate to be50%.

Q.3.A) From the following data, calculate the MARKET PRICE of a share of LSK Ltd., under Walter's formula; and (ii) Dividend growth model. (8)

EPS = Rs. 150
DPS = Rs. 90
Ke = 20%
r = 30%
Retention ratio = 55%

B) If Reliance group has a choice of the following three financialplans.(Rs. in lakhs). (7)

| | Plan 1 | Plan 2 |
|---|---|---|
| Equity | 30 | 10 |
| Debt | 10 | 30 |
| EBIT | 4 | 4 |

Interest @12% per annum on debts in all cases. Tax rate 25% . Comment which plan is more beneficial for the owners of the company on basis of its net earnings with appropriate justification.



**OR**

Q.3A ltd has the following capital structure as on 31st December,2016. (15)

| | Rs. |
|---|---|
| 10%debentures | 3,00,000 |
| 9% preference share capital | 2,00,000 |
| 5000 equity shares ofRs.100 each | 2,50,000 |
| | 7,50,000 |

The Equity shares of the company are quoted at Rs.100 and the company is expected to declare a dividend of Rs.9 per share for 2016.The company has registered a growth rate of 5% which is expected to be maintained .The tax rate applicable to the company is 50%.

Calculate:1.The weighted average cost of capital

2.The revised weighted average cost of capital, if the company raises additional term loan of Rs.2,50,000 at 15% .In such a situation the company can increase dividend from Rs.9 to Rs.10 per share but the market price of the share will go down to Rs.90.

Q.4 A) The total expenditure is budgeted as Rs. 70,00,000. Rs. 30,00,000 has been utilised for certain expansion plans. The balance Rs. 40,00,000 needs to be allocated amongst any two of the following proposals. Tax rate is 30%. Evaluate the same with the help of Payback period. The details of the proposals are: (15)

| **Details** | **Proposal A** | **Proposal B** | **Proposal C** |
|---|---|---|---|
| Cost of the proposal (Rs.) | 20,00,000 | 20,00,000 | 20,00,000 |
| Expected life | 5 years | 6 years | 4 years |
| Scrap Value (Rs.) | 2,00,000 | 1,00,000 | Nil |
| Annual Cash Flow before tax after depreciation | 5,00,000 | 4,00,000 | 6,00,000 |
| Additional working capital at the end of second year (Rs.) | 2,00,000 | 75,000 | 1,25,000 |



**OR**

Q.4.B) From the following Capital structure calculate overall cost of capital for ABC Ltd using

A) Book value weights (15)
B) Market value weights

| Source | Book Value (Rs.) | Market Value (Rs.) | After tax cost of different sources |
|---|---|---|---|
| Equity share Capital | 60000 | 90000 | 15% |
| Retained Earnings | 20000 | - | 12% |
| Preference share Capital | 10000 | 30000 | 10% |
| Debentures | 30000 | 60000 | 8% |

Q.5. A) Define finance. State its importance for a corporate enterprise. (8)
B) "Debt is cheapest source of finance". Comment. (7)

**OR**

Q.5. Write Short Notes (Any 3) (15)

1. Scope of finance.
2. Cost of capital
3. Short term source of finance
4. Profit Maximisation.
5. Time value of money.