11|022

VCD_____SYBBI SEM III FINANCIAL MANAGEMENT 2hrs 30 mins MARKS - 75

Q1. A) Fill in the blanks. (Attempt any 8). (8)

1. NPV considers __________ of money.
   a)time value b)ARR c)discount d)Payback Period
2. _________________ helps the investors to decide the return on investment.
   a) ARR b) Payback Period c)discount d) Capital Budgeting
3. The Cost of loan is considered ____________ tax.
   a) post b) pre c) TDS d) lower
4. Higher the tax rate, ____________ the after tax cost of debt financing.
   a) higher b) greater c) more d) lower
5. Credit sales are ______ as cash payment remains unreceived.
   a) higher b) risky c) simple d) lower
6. Receivables may be represented by bills receivables or ____________ balance.
   a) creditors b) debtors c) assets d) liabilities
7. The formula of dividend pay-out ratio is _______.
   a) DPS/ EPS b) MPS/DPS c) EPS/DPS d) EPS/MPS
8. _________shares are received by shareholders at free of cost.
   a) Bonus b) Right c) Preferential d) Debentures
9. Dividend is a distribution of ________
   a)Net Profit b)Profit After Tax c) Profit Before Tax d) Income of the company
10. The abbreviation of NPV is _____________.
   a) Net Present Value b) Net Profit Value c) Notional Profit Value d) Notional Present Value

Q1. B) State true or false. (Attempt any 7). (7)

1. Capital Budgeting decisions are long term decisions.
2. Investment decisions and capital budgeting are same.
3. Equity Investors are high risk bearers.
4. Cost of capital is used in Capital Budgeting decisions.
5. In a competitive market, higher volume of sales is made on credit.
6. The working capital ratio or current ratio is calculated as current assets divided by current liabilities.
7. Financial managers and financial accountant have same functions.
8. Inventory are also termed as stock.
9. The traditional approach is relevance theory.
10. Debentures has fixed rate of interest.

Q2. Determine the (a) Pay Back Period and (b) A.R.R. from the following information of a proposed project. (15)

Particulars	Rs.
Cost	5,20,000
Annual Profits after Tax and Depreciation	
Year	
1	30,000
2	50,000
3	70,000
4	90,000
5	1,10,000
Total	3,50,000

Estimated life = 5 years
Estimated scrap value = Rs. 20,000.

OR

Q2. (15)
Charlie Company Ltd. wishes to buy a machine costing Rs. 2,00,000. The life of this machine 10 years and its scrap value would be Rs. 5,000.
The following details are provided:

Average Annual NPBT	Rs. 20,000
Tax Rate	35%
Depreciation (already charged)	SLM basis

Calculate;
(1)Payback Period.
(ii)Payback Profitability
(ii) A. R. R. [Accounting Rate of Return Method]

Q3. Following are the details regarding the capital structure of a ABC Ltd. (15)

Types of Capital	Book Value Rs	Market Value Rs	Specific Cost
Equity Capital	60000	90000	15%
Retained Earnings	20000	-	12%
Preference Capital	10000	30000	10%
Debentures	30000	60000	8%

You are requested to determine the weighted average cost of capital, using
(a) Book value as weights and (b) Market value as weights

OR

Q3.A) Calculate market price of share as per walter model. (7)

Internal rate of return	20%
Cost of Capital	16%
Dividend per share	Rs. 3
Earning per share	Rs. 5

Q.3 B) Calculate the Market Price of share as per Gordon Model. (8)

Retention Ratio	50%
Internal Rate of Return	20%
Cost of Capital	16%
Dividend per share	Rs. 3
Earning per share	Rs.5

Q.4) **(15)**

AB company needs 5,00,00,000 for the construction of a new plant, The following three financial plans are feasible:

a) The company may Issue 50,00,000 ordinary shares of Rs. 10 each

b) The company may issue 25,00,000 ordinary shares @ rupees 10 and remaining amount
may be collected by issue of 2,50,000. Debentures of Rs 100 each bearing an 8% rate of interest.

c) The company may issue 25,00,000 ordinary shares @ 10 each and remaining amount as preference shares of rupees 10 each bearing an 8% rate of dividend

If the expected EBIT, which the company may earn is Rs 40,00,000, then suggest which capital structure alternative the company should select. Assume tax rate to be 50%?

OR

Q4) **(15)**

Ms. Orbit Technologies Ltd. has the following capital structure:
Equity share Capital (4 lacs shares)Rs. 1,00,00,000.
10% Preference Share Capital Rs. 20,00,000
15% Debentures Rs. 60,00,000.
The shares of the company are presently traded at Rs. 25 per share. It is expected that the company will earn post tax profits of Rs. 20 lacs (Income Tax rate assumed to be 40%). The company wishes to raise further funds of Rs. 50 lacs and has the following options:
(1) Issue new debentures and Preference shares in equal proportion.
(2) Issue of preference shares to the extent of 25%, balance by way of debentures. (3) Issue new debentures carrying 14% interest rate. As a Financial Manager, which of the above proposal would you recommend?

Q5. A) Explain factors determining dividend policy. **(8)**
Q5. B) State in brief any 3 functions of a finance manager. **(7)**

OR

Q.5) Write short notes. (Any 3) **(15)**

1. Economic Value Added (EVA)
2. Long term sources of finance
3. Types of Preference Shares
4. Objectives of Financial Management
5. International Sources of Finance