VCD 18/10/19 **SYIM / Financial Management (SEM III) (Choice Based) OCT-2019**

Marks: 75

Duration: 2½

Note : **1) All Questions are compulsory.**
2) Each Questions carries 15 marks.

Q.1. A) Select the most appropriate answer (Any 8) **(08)**

1) ______ are the techniques of capital budgeting.

a) Payback period b) Net present value

b) Accounting rate of Return d) All of the above.

2) Time value of money explains that ______

a) A unit of money received today is worth more than a unit received in future

b) A unit of money received today is worth less than a unit received in future

c) A unit of money received today and a some other time in future is equal.

d) None of these.

3) ______ is a sole objective of financial management.

a) Wealth maximization b) Profit maximization

c) General welfare d) Welfare of the society

4) Cost of capital refers to ______

a) Flotation Cost b) Dividend

c) Required rate of return d) None of the above

5) Debt financing is a cheaper source of finance because of ______

a) Time value of money b) rate of Interest

c) Tax deductibility of interest d) Dividend not payable to lender

6) ______ is having the biggest cost of capital.

a) Loan b) Bonds c) Equity shares d) Preference shares

7) Capital budging decision involve decision relating to ______

a) Acquisition of fixed asset

b) Financing day to day activities

c) Both (a) and (b)

d) None of the above

8) Financial decision involves ______

a) Investment. financing and dividend decision

b) Investment. financing and sales decision

c) Investment, financing and cash decision

d) None of these.

9) Appropriate objective of an enterprise is

a) Maximization of owner's wealth

b) Maximization of sales

c) Maximization of own share capital

d) All of the above.

10) Profit maximization does not take into consideration

a) Risk and cash flow

b) Cash flow and stock prize

c) Risk and EPS

d) EPS and stock Prize

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

Column A	Column B
1) Gordon's model	a) Wealth maximization
2) Return of Investment	b) Convertibility into cash
3) Trading on Equity	c) optimum capital structure does not exit
4) Dividend	d) kd= 1 (1-t)
5) Annuity	e) Part of profit distribute
6) m.m Approach	f) Stream of constant cash flows occurring at Regular interval
7) The payback period	g) Increases EPS
8) Cost of debenture issued/redeemable At par	h) PV of cash inflows/PV of cash outflows
9) Profitability index	i) The period a project taxes to record its Initial cash outflow
10) Objective of financial management	j) Po=E (1-b)/ k-br

Q.2. **A)** A project involves cash inflows as given below. **(08)**

Year	Cash inflow (Rs.)
1	20000
2	24000
3	30000
4	40000

If the rate of interest is 15% find out present value of cash inflows (consider upto two digits after decimal).

B) Following is the capital structure of firm. (07)

Particulars	Rs.
Equity capital	450000
Retained Earnings	150000
Preference share capital	100000
Debts	300000
	10,00,000

The firm's after tax component costs of various sources of finance are as follows.

Sources	Cost
Equity capital	14%
Retained Earnings	13%
Preference Capital	10%
Debts	4.5%

Calculate weighted average cost of capital of the firm.

OR

Q.2. ABC Ltd. Wishes to raise additional finance of Rs.20 Lakhs for meetings its Investment plans. The company has Rs. 4 Lakhs in the form of retained earnings available for investment purpose. The following are the further details. **(15)**

- Debt equity 25:75
- Cost of debt at the rate of 10% (before tax) upto Rs. 2 lakhs & 13% (Before tax) beyond that.
- Earning per share Rs. 12.
- Dividend payout 50% of earnings.
- Expected growth rate in dividend 10%.
- Current market price per share Rs.60.
- Company's tax rate is 30% and shareholder's personal tax rate is 20%.

Required

1) Calculate post tax average cost of additional debt.
2) Calculate the cost of retained earnings and cost of equity.
3) Calculate the overall weighted average (after tax) cost of additional finance.

Q.3. One up Ltd has equity share capital of Rs.500000 divided into shares of Rs. 100 each. wishes to raise further Rs.3,00,000 for expansion cum-modernization scheme. **(15)**

The company plans the following financing alternatives:

a) By issuing equity shares only.

b) Rs. 100000 by issuing equity shares and RS. 200000 through debentures or term loan @ 10% p.a.

c) By raising term loan only at 10% p.a.

d) Rs. 100000 by issuing equity shares and Rs. 200000 by issuing 8% preference shares.

You are required to suggest the best alternative, giving your comments assuming that the estimated earnings before interest and taxes (EBIT) after expansion is Rs.150000 and corporate rate of tax is 35%.

OR

Q.3. From the following information of AB Ltd. You are required to calculate. **(15)**

a) Cost of equity.

b) Cost of debt (after tax)

c) Weighted average cost of capital

Earning per share = Rs. 4

Dividend payout ratio = 25%

Market price per share = Rs.40

Rate of Tax = 30%

Dividend Growth rate = 8%

The company wants to raise additional capital of Rs.10,00,000 including debts of Rs. 400000. The cost of debt (before tax) is 10% upto Rs.200000 and 15% beyond that.

Q.4. Following are the details regarding three companies A Ltd, B Ltd and C Ltd. **(15)**

Particulars	A Ltd	B Ltd	C Ltd
Internal rate of return	15%	5%	10%
Cost of Equity capital	10%	10%	10%
Earning per share	Rs.8	Rs.8	Rs.8

Calculate value of an equity share of each of these companies as per walter's model when the dividend payout ratio is:

a) 50%

b) 75% and

c) 25%

OR

Q.4. Abhishek Ltd. Has equity share capital of Rs.30,00,000 divided into share of Rs.100 each. It wishes to raise further Rs.12,00,000 for expansion programme.

The company has the following plans of financing alternatives for additional funds required. :

The company plans the following financing alternatives for additional funds required:

Funds raised by	financing alternatives			
Particulars	I	II	III	IV
Issue of equity shares (at par)	100%	50%	50%	-
Issue of 8% preference shares	-	-	30%	50%
Issue of 10% Debentures	-	50%	20%	50%

You are requires to suggest the best financing alternatives giving your comments, assuming that estimate EBIT after expansion Rs. 600000 and corporate tax rate is 30%.

Q.5. A) Write short Notes (Any 3)

1) Cost of retained earnings.
2) Features of optimal capital structure.
3) Importance of financial management for different stakeholders.
4) Return on capital employed.
5) Stable dividend policy.

OR

Q.5. B)

1) What is capital budgeting? Explain the techniques of evaluating investment Projects. **(08)**
2) What factors we need to consider while constructing capital structure. **(07)**