VCD: 11/022 SYBIM SEM: III FINANCIAL MANAGEMENT 2 ½ Hours Marks: 75

(NOTE: All Questions are Compulsory.)

1. (A) State whether following statements are True or False: (Any Eight) (8)

1) The duties of a Financial Manager is to determine which marketing strategy to use to promote a product.
2) The payback period considers the time value of money.
3) Gross Profit and Net Profit both give the same amount of profit.
4) Profit maximization is the goal of financial management.
5) The Internal Rate of Return is very simple to calculate.
6) Dividends are the cash flows returned to the shareholders.
7) EVA stands for Economic value added.
8) The ratio of debt and equity must be equal.
9) Cost of equity is zero.
10) Secondary market is the market for fresh issue of shares.

1. (B) Match the following: (Any Seven) (7)

Group 'A'	Group 'B'
A. Debt equity	I. Shareholder funds
B. Own capital	II. Deciding present value of future amount
C. Implicit cost	III. Capital budgeting decision
D. NI Approach	IV. Net Present Value
E. Discounting	V. Profit after tax + Depreciation
F. Replacement of equipment	VI. Price Earning Ratio
G. Cash inflow	VII. Internal rate of return
H. Retained earnings	VIII. Suggested by Durand
I. P/E ratio	IX. Dependence on debt & equity
J. Discounting factor technique	X. Equity Capital

2. A) Calculate the weighted average cost of capital from the following data of Blazing Arrow Co. (15)

Particulars	Rs.
7% Debentures	1,30,000
8% Preference Shares	70,000
Equity Shares (of Rs. 100 Face value)	6,00,000
	8,00,000

(There are no retained profits or securities premium). A dividend of 10% a year has been paid on the equity shares in recent years. All of the company's securities are quoted on the local stock exchange. The prices of these securities have recently been at par (i.e. market and issue price same).

OR

2. B) Calculate the Market price of share as per Walter Model and Gordon Model. **(15)**

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

3. A) Samrat Television has the following capital structure:. **(15)**

Equity Share Capital	4 Crores
Retained Earnings	3 Crores
Preference Shares	1 Crore
Debentures	2 Crores
Total	10 Crores

After tax costs are as under:

Equity Share Capital	15.6%
Retained Earnings	15%
Preference Shares	10.5%
Debentures	4.5%

Compute the weighted average cost of capital.

OR

3. B) M/s. Tulip & Co. has an investment opportunity costing Rs. 4,00,000 with the following expected net cash flow (i.e. after taxes and before depreciation): **(15)**

Years	Net Cash Flow (Rs.)
1	70,000
2	70,000
3	70,000
4	70,000
5	70,000
6	80,000
7	1,00,000
8	1,50,000
9	1,00,000
10	40,000

Using cost of capital (rate of discount) determine the Net Present Value and Profitability Index with the help of 10% discounting factor and give your comments.

4. A) From the following Capital structure of Perfect Ltd. Calculate overall cost of capital, using (a) book value weights and (b) market value weights. **(15)**

Source	Book value	Market value
Equity shares of Rs. 10 each	4,50,000	9,00,000
Retained Earnings	1,50,000	-
Preference share capital	1,00,000	1,00,000
Debentures	3,00,000	3,00,000

The after tax cost of different sources of finance are Equity share capital 14%, Retained Earnings 13%, Preference shares and Debentures 5%.

OR

4. B)

I. Determine the Payback Period from the following information: **(8)**

Years	Net Cash Flow (Rs.)
1	30,000
2	50,000
3	70,000
4	90,000
5	1,10,000

Cost of the Project= Rs.5,20,000.

II. A deposit of Rs. 10,000 is made to earn interest @ 12 % p.a. Find out the future value of this deposit if the compounding period is: **(7)**

(a) Annually
(b) Half-yearly
(c) Quarterly
(d) Monthly
(e) Daily

5. (A) State Features of Corporate Finance. **(8)**

(B) Explain capital structure. **(7)**

OR

5. Write short notes on: (Any Three) **(15)**

1. Cost of equity
2. Cost of Preference shares
3. Weighted average cost of capital
4. Features of Bond.
5. Executive finance functions of Finance Manager.