Time 2 ½ Hours **Marks: 75**

Please check whether you have got the right question paper.

Note:

- All questions are compulsory.
- Each question carries 15 marks.
- Figures to the right indicate full marks.
- Use simple calculator.
- Working should form part of answer.

Q1 A State whether the statements are true or false. **(Any 8)** **8**

1. Overcapitalization does not have any adverse effect.
2. The duties of a finance manager are to determine which marketing strategy to use to promote a product.
3. Cost of equity is zero.
4. Cost of capital is used in capital budgeting decision.
5. Preference share capital has fixed rate of interest.
6. Fixed cost per unit remains constant.
7. Margin of safety is the difference between maximum sales and breakeven sales.
8. Capital not bearing risk relates to equity share capital.
9. IRR is easy to calculate.
10. Share capital is a long term source of finance.

Q1 B Match the column. **(Any 7)** **7**

	Column "A"		Column "B"
1	Retained Earnings	I	Debt + Equity
2	Bad Debts	Ii	No profit – No loss
3	Equity Shares	Iii	Default Cost
4	Modern Method	Iv	Relationship between Profit & Sale
5	BEP	V	Liability + Equity
6	P/V Ratio	Vi	Internal Sources
7	Assets	Vii	Cash inflow – Cash outflow
8	WACC	Viii	Combined Cost of Capital
9	Capital Structure	Ix	Voting Rights
10	NPV	X	Capital Structure Planning

Q2 **A** Following are the details relating to capital structure of Oreo Ltd. **15**

Particulars	Book Value (Rs.)	Market Value (Rs.)	Specific Cost (%)
Equity Capital	90,000	1,80,000	14%
Retained Earnings	30,000	-	13%
Preference Share	20,000	20,000	10%
Debentures	60,000	60,000	5%

You are required to calculate the weighted average cost of capital, using

a. Book Weights
b. Market Weights

Ignore taxation.

OR

B From the following particulars, you are required to calculate: **15**

1. Profit Volume Ratio (P/V Ratio)
2. Fixed Cost
3. Break Even Sales
4. Sales to earn Profit of Rs. 6,00,000
5. Margin of Safety of the year 2017.

Particulars	2016 (Rs.)	2017 (Rs.)
Total Cost	12,96,000	18,72,000
Sales	14,40,000	21,60,000

Q3 **A** A company needs Rs. 12 lakhs for the installation of a new factory which would yield an annual EBIT of Rs. 2,00,000. The company has the 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 and Rs. 10,00,000. The current market price per share is Rs. 40 which is expected to drop Rs. 25 per share if the market borrowings were to exceed Rs. 7,50,000. **15**

Cost of Borrowings are indicated as under

Upto Rs. 2,50,000	10% p.a.
Between Rs. 2,50,001 to Rs. 6,25,000	14% p.a.
Between Rs. 6,25,001 to Rs. 10,00,000	16% p.a.

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

OR

B AM Capital Structure consists of the following: **15**

Sources	RS.
Equity Shares of Rs. 100 each	20,00,000
Retained Earnings	10,00,000
9% Preference Share Capital	12,00,000
7% Debentures Capital	8,00,000
Total	50,00,000

The company earns 12% on Capital. The Income Tax rate is 50%. The company requires a sum of Rs. 25,00,000 to finance expansion programme for which the following alternatives are available to it.

i. Issue of 20,000 Equity Shares at a premium of Rs. 25 per share.
ii. Issue of 10% Preference Shares.
iii. Issue of 8% Debenture.

It is assumes that the P/E Ratio in the cases of equity, preference and debenture financing would be 21.4; 17 and 15.7 respectively. Which of the three financing alternative would you recommend and why?

Q4 **A** A company has an Investment opportunity for Project P. Assuming a required rate of return of 10% determine the following: **15**

Calculate:

i) Payback Period
ii) Discounted Payback Period
iii) Profitability Index

Sources	Project P (Rs.) Net Income (after depreciation, interest and tax)
1	10,000
2	10,000
3	20,000
4	20,000
5	20,000

Expected life (no salvage) is of 5years.

OR

B Calculate the IRR for the following projects and decide which is the most profitable project. **15**

Year	Project X Rs.	Project Y Rs.	PV Factor @ 10%	PV Factor @ 20%
0	2,00,000	2,00,000	-	-
1	35,000	1,18,000	0.91	0.83
2	80,000	60,000	0.83	0.69
3	90,000	40,000	0.75	0.58
4	75,000	14,000	0.68	0.48
5	20,000	13,000	0.62	0.41

Q5 **A** Explain the need and importance of corporate finance. **8**

B Discuss the importance of merchant bankers. **7**

OR

Q5 **C** Write short notes **(Any 3)** **15**

1. Components of Cost of Capital
2. Need for Capital Structure Planning
3. Break-even-Point
4. Margin of Safety
5. Average Rate of Return

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