

10/03/17
FY BAF
Fin Mngt

FUBAF
Sub - Financial Management - I

Q.P. Code :00289

[Time: $2\frac{1}{2}$ Hours]

[Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. All Questions are compulsory each carrying 15 marks.
 2. Use of only simple calculator is permitted.
 3. Working notes should form part of your answer.

Q.1) A) Fill in the blanks (any 8 out of 10)

1. The financing decision involve the most appropriate mix of _____
2. _____ is the value of cash at a fixed time in future.
3. _____ is the inverse of discounting.
4. _____ Leverage arises when the firm raises finance by fixed interest bearing securities.
5. _____ Cost affects the cost of raising that capital at the time of issue of new securities.
6. Dividend distribution tax affects the cost of _____
7. ESOPs are allotted to _____
8. Loan for machinery is _____ term finance.
9. If the interest rate is 12% compounded semiannually and deposits will be made for 10 years, then the rate of interest will be _____%
10. Trading on equity is used to increase Shareholders _____

B) State True or False (any 7 out of 10)

1. Discounting technique is utilized to shows future value of money invested.
2. Equal instalments at equal intervals will result in any annuity.
3. The main job of finance manager is to make decisions in human resources area.
4. Operating leverage exists if there is an operational fixed cost.
5. Combined leverage should be as low as possible.
6. Cost of retained earnings is not considered for Cost of capital
7. Cash of credit for business is temporary advance from the bank.
8. All sources of capital have the same cost.
9. Dividend to equity shareholders reduces tax liability of the company.
10. The objectives of financial management is to optimise the use of funds

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- Q.2) A) Sunny started his business by investing Rs.6,50,000 in his firm. Find the present value of the cash flow streams if the discount rate is 12percent.

Year	Cash flow (Rs.)
1	50000
2	80000
3	70000
4	60000
5	80000

PV factor of Re 1.	1	2	3	4	5
12%	0.893	0.797	0.712	0.636	0.567

- B) Mr. Shine deposits in bank Rs.5,00,000 for 9 years at 12% rate of interest. How much will he receive after 9 years if the investment is compounded (i) semi annually (ii) quarterly?

OR

- Q.2 A) Mr. Rashi deposits Rs.1,00,000 annually in a bank for 7 years. The deposit earns 10% per annum. What is the future value of this annuity at the end of 7 years?

- B) Mr. Rihaan wants to go for higher education after 7 years. How much should he deposit on present day in bank so that he receives Rs.20,00,000 after 7 years. Rate of interest is 10%

- Q.3) Rock Ltd. Has equity share capital (Rs.100 per share) of Rs.10,00,000. The sales of Rock Ltd is Rs.50,00,000 per annum, variable cost is 75%. Fixed cost is Rs.8,00,000. Tax rate is 50%. Calculate operating leverage, financial leverage and combined leverage under following situations:
- If company borrows 9% Bank loan of Rs.10,00,000.
 - If the company issues 10% debentures of Rs.12,00,000. (face value Rs.100)

OR

- Q.3. Calculate operating leverage, Financial leverage and combined leverage from the following information.

Particular	Year 2015	Year 2016
Sales (units)	20000	Increase by 50%
Selling price per unit (Rs.)	40	40
Variable cost per (Rs.)	20	22
Fixed cost (Rs.)	1,40,000	200000
Tax Rate	50%	50%
10% Debentures of Rs.100 each	150000	200000
Equity share capital	500000	600000

08

Q.4) A) Simply Ltd. Issued Rs.50 Lakhs, 14% debentures of Rs.100 each. Tax rate is 40%. Calculate the cost of debt in following cases: 08

1. If the issue is at par with 5% floatation cost
2. If the issue is at 10% premium with 5% floatation cost

B) (i) Shivin Ltd has 4000 equity shares of Rs.100 each at par. The company pays dividend of Rs.10 per share and growth in dividend is expected to be 4%. If the market price of equity share is Rs.200, calculate the cost of existing equity share. 07
 ii) Shilpa Ltd. has 3800 equity shares of Rs.100 each at par. The company pays dividend of 12% and growth in dividend is expected to be 6%. If the market price of equity share is Rs.175, calculate the cost of existing equity share.

OR

Q.4) Determine the weighted average cost of capital of Sun and Moon Ltd on the basis of book value and market value 15

Book Value

Type of Capital	Sun Ltd. (Rs.)	Moon Ltd. (Rs.)	Cost of Capital
Debt	4,00,000	3,80,000	10
Preference	2,00,000	1,20,000	8
Equity	6,00,000	8,00,000	13

Tax rate is 50%

Market Value

Type of Capital	Sun Ltd (Rs.)	Moon Ltd (Rs.)	Cost of Capital
Debt	3,50,000	4,00,000	10
Preference	2,10,000	1,05,000	8
Equity	6,90,000	7,85,000	13

Tax Rate is 50%

Q.5) A) Differentiate between Debentures and equity shares. 08
 B) Explain the scope of financial management 07

OR

A) Write short note on any three: 15

1. Operating Leverage
2. Wealth maximization v/s Profit maximization
3. Weighted average cost of capital
4. Commercial Banks
5. Concept of Present value