

29/12/22
VCD: _____ CLASS: FYBAF SEM: I SUB: FINANCIAL MANAGEMENT HOUR: 2 ½ MARKS: 75

- Note: -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.

Q1. (a) State whether the following sentences are true or false. (Any 8) (08)

1. Book Value & Market Value weights are always different.
2. Every source of fund has an explicit cost of capital.
3. Bill Discounting is a good source of short-term finance to all firms.
4. In India, commercial papers can be issued for any amount and for any duration.
5. Financial Leverage depends upon the operating leverage.
6. Operating Leverage may be defined as Contribution / EPS.
7. Present Value tables for annuity can be directly applied to mixed stream of cash flows.
8. Financing decisions involve the most appropriate mix of current and fixed assets.
9. Dividend on Pref. shares is a factor of operating leverage.
10. Cost of debt is the same as the rate of interest.

Q1. (b) Match the following. (Any 7) (07)

Group A	Group B
1. Loan fund	a. life blood of an organisation
2. Consider time value of money	b. $FV/(1+r)^t$
3. Expected Cost	c. D/NP
4. Finance function	d. Long term Investment
5. Equity Share Capital	e. Net Present Value
6. NPV	f. Non refundable
7. Huge Capital	g. Capital Budget
8. Cost of equity	h. Future Cost
9. Present value	i. Discounted cash flow
10. Finance	j. Debentures

Q.2 Calculate the operating leverage, financial leverage and the combined leverage for the following firms: (15)

Particulars	N	S	D
Production (in units)	17,500	6,700	31,800
Fixed Costs (Rs.)	4,00,000	3,50,000	2,50,000
Interest on Loan (Rs.)	1,25,000	75,000	Nil
Selling Price per unit (Rs.)	85	130	37
Variable cost per unit (Rs.)	38.00	42.50	12.00

OR

Q.2 The data related to two companies are as given below: (15)

Particulars	Company A	Company B
Equity Capital	Rs. 6,00,000	Rs. 3,50,000
12% Debentures	Rs. 4,00,000	Rs. 6,50,000
Output (Units) per annum	60,000	15,000

Selling Price / Unit	Rs.30	Rs.250
Fixed Costs per annum	Rs.7,00,000	Rs.14,00,000
Variable cost per unit.	Rs.10	Rs.75

You are required to calculate operating leverage, financial leverage and combined leverage of two companies. (15)

Q.3(a) If you deposit Rs.1,000 today in a bank which pays 12% interest compounded annually, how much will the deposit grow to after 8 years and 12 years? (08)

(b) A fixed deposit has a maturity value of Rs. 1,30,000. It is initially purchased for Rs. 1,00,000 for 3 years. Calculate simple interest rate per year. (07)

OR

Q.3(a) Find out the present value of the following cash flows. Discounted rate @10%. (08)

Year	1	2	3	4	5
Cash flows	500	1,000	1,500	2,000	2,500

(b) Determine the P.V. of annuity of Rs.2,00,000 receivable for 5 years semi annually at 12% p.a. compounded semi-annually. (07)

Q.4 R Ltd. issued Rs.100 lakhs 14% debentures of Rs.100 each. Tax rate is 40%. Calculate cost of debt if:-

- Debentures issued at par.
- Debentures issued at par with 15% flotation cost.
- Debentures issued at 10% premium with 5% flotation cost.
- Debentures issued at 10% discount with 5% flotation cost.

(15)

OR

Q.4 From the following capital structure of a Ltd., company you are required to calculate over all cost of capital using: 1. Book value weights. 2. Market value weights.

Source	Book Value Rs.	Market Value Rs.
Equity Share Capital (Rs.10/- Shares)	45,000	90,000
Retained Earnings	15,000	-
Preference Share Capital	10,000	10,000
Debentures	30,000	30,000

The after-Tax cost of different sources is as follows:

Equity Share Capital	14%
Retained Earnings	13%
Preference Share Capital	10%
Debentures	5%

(15)

Q5. (a) What are the qualities of a good finance manager?

(08)

Q5. (b) Distinguish between Operating Leverage and Financial Leverage.

(07)

OR

Q5. Write short notes. (Any 3)

(15)

1. Importance of financial management.
2. Short term financing.
3. Cost of Debt
4. Limitation of financial management.
5. Wealth-Maximisation and Financial Decisions.

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