SYBCBI (III) /24

706

Paper / Subject Code: 79709 / Financial Management - I

Max. Marks: 75 Time: 2Hrs.30Min.

Instructions:

A. All questions are compulsory subject to internal choice.

B. Figures to the right indicate full marks.

Q. 1.

A. State whether the following statements are true or false. (Attempt any **Eight**) [08]

1. Financial management is important even to non-profit form of organisation.
2. Financial managers and financial accountant have same functions.
3. Factoring is long term source of finance.
4. Floating cost affect the overall cost of the security.
5. Internal rate of return considers the time value of money.
6. Profitability index ratio is also called as benefit to cost ratio.
7. Inter corporate deposits carry a feature of demand call deposits.
8. Return on Investments indicates the earning capacity of business.
9. Capital Budgeting decisions are irreversible and hence require careful evaluation.
10. M-M Approach assumes there are no transactions costs involved while raising capital.

B. Choose the correct alternative. (Attempt any **Seven**) [07]

i. Cost of 12% preference shares issued at par, assuming tax rate to be 30% will be __________.
   a. 8.4% b. 10%
   c. 12% d. 15.6%

ii. Payback period for a project costing of Rs. 10,00,000 with an annual cash inflow of Rs. 2,50,000 will be __________.
   a. 4 years b. 5 years
   c. 6 years d. 8 years

iii. __________ method uses trial and error.
   a. Net present value b. Internal rate of rate
   c. Profitability index d. None of the above

iv. __________ is a modern approach of financial management.
   a. Profit maximisation b. Cost minimisation
   c. Zero risk d. Wealth maximisation

v. The term capital employed includes __________.
   a. Equity shares b. Preference shares
   c. Loans d. All of the above

vi. __________ is not a type of preference share.
   a. Cumulative b. Convertible
   c. Bearer d. Redeemable

vii. __________ is a method based on time value of money.
   a. Net terminal value method b. Discounted payback period
   c. Internal rate of return d. All of the above

viii. __________ shares are received by shareholders at free of cost.
a. Preferential b. Bonus
c. Right d. None of the above

ix. __________ capital is the maximum capital that company can issue during its life time.
a. Authorised b. Issued
c. Reserve d. Called up

x. During the period of __________ no transfer of share is undertaken by the company.
a. Book Closure b. IPO
c. FPO d. All of the above.

Q. 2. A. [15]

Palak's Capital Structure consists of the following:

Particulars	Rs.
Equity Shares of Rs. 100 each	80,00,000
Retained Earnings	40,00,000
10% Preference Share Capital (FV Rs. 1000 each)	60,00,000
8% Debentures (FV Rs. 1000 each)	20,00,000
Total	2,00,00,000

The company earns 15% on capital employed. The income tax rate is 50%. The company requires sum of Rs. 50,00,000 to finance expansion programme for which the following plans are available to it.

a. Issue of new equity shares at a premium of Rs. 25 per share.
b. Issue of 12% Preference Shares.
c. Issue of 10% debentures.

It is estimated that the P/E ratio in the case of equity, preference and debentures financing would be 12, 14 and 10 respectively.

Which of the three financial alternatives would you recommend and why?

OR

Q. 2. B. [15]

Futura Ltd. is considering a new project of metro rail construction. The project requires capital investment of Rs. 60 crores. For financing the required funds it has the following two alternatives into consideration:

i. Finance the entire requirement by the issue of equity shares.
ii. Finance the requirement by issue of debentures and ordinary shares in the ratio of 3:1.

Further note:

i. The equity shares will have face value of Rs. 10.
ii. The debentures will carry interest rate of 12% and FV Rs. 100
iii. Corporate taxation rate is 40%.

You are required to:

i. Calculate the financial indifference point of both the options.
ii. Verify your answers by calculating the EPS.

Q. 3. A. [15]

Genstar Ltd has a project under consideration which requires an initial cash outflow of Rs. 10,00,000. It is projected that the project will generate the following cash inflow:

Year End	1	2	3	4	5
Cash Inflow (Rs. in lakhs)	6	3	2	5	5

Its cost of capital is 10%. Determine:

a. Payback Period,
b. Discounted Payback Period
c. Net Present Value
d. Profitability Index.

OR

Q. 3. B.

Calculate form the following information of Rashtriya Ltd.: [15]

a. Payback Period
b. Payback Profitability
c. Average Rate of Return

Cost of machine is Rs. 2,00,000, Salvage Value Rs. 20,000, Rate of depreciation @ 10%under WDV basis, effective income tax rate is 40% and annual profit before depreciation and tax for the first six years are Rs. 70,000, Rs. 90,000, Rs. 96,000, Rs. 78,000, Rs. 62,000 and Rs. 50,000.

Q. 4. A

Following are the details relating to capital structure of Oreo Ltd. (15)

Particulars	Book Value (Rs.)	Market Value (Rs.)	Specific Cost (%)
Public Deposit	70,000	65,000	10
Preference Shares	30,000	40,000	12
Equity Shares	1,00,000	1,95,000	15
Retained Earnings	50,000	-	15
	2,50,000	3,00,000	

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

a. Book Weights.
b. Market Weights.

Ignore taxation

OR

Q. 4. B. [08]

Calculate Economic value added from the following information relating to Amar Ltd.
Capital employed Rs.5,000 crores
Debt equity ratio: 1:3
Cost of equity: 20%
Cost of Debt: 12% (After Tax)
Tax rate: 25%
Return on capital employed: 25%

Q. 4. C. [07]

Find the effective rate of 12% if the interest is compounded:

a. Yearly
b. Half yearly
c. Quarterly
d. Monthly

Q. 5.

A. What are the determinants of capital structure? [08]

B. What should be the qualities of efficient finance manager? [07]

OR

Q. 5. A Short Notes: (Attempt any **Three**) [15]

1. Hybrid Financing
2. Concept of Free cash flow
3. Weighted average cost of capital
4. Walter Model
5. Accounting rate of return

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