L-1

Fin. Mgmt-I

SEAT NO. :_____

DURATION: - 2½ hrs **431151024** **MARKS:- 75**

Note: - (1) All questions are compulsory

(2) Figures to the right indicate full marks

(3) Answer to each question must being on a new page

Q.1 (A) Match The Followings:-(any 8) **CO1,CO2 (U)** **(8)**

Column A	Column B
(1) Assets	(i) Working Capital Decision
(2) Replacement of Equipment	(ii) Ordinary Share Capital
(3) Cash Profit	(iii) Dividend
(4) Investment in Inventory	(iv) Liabilities + Equity
(5) Common Stock	(v) Profit After Tax + Depreciation
(6) Treasurer	(vi) Capital Budgeting Decision
(7) Finance Controller	(vii) Leverage Ratio
(8) Debt-Equity Ratio	(viii) Price Earning Ratio
(9) P/E Ratio	(ix) Raising of Funds
(10) Retained Earnings	(x) Shareholder funds
	(xi) Profit Earning Ratio
	(xii) Controlling Expenditure

Q.1 (B) State whether the following statements are True or False:- (any 7) **CO1,CO2 (U)** **(7)**

1. Capitalisation is generally found to be of three types: Normal, Over and Under.
2. Overcapitalisation does not have any adverse effects.
3. Market Value of Shares of an under-capitalized Company rises.
4. The interest on debentures is a tax deductive expenditure.
5. Gross Profit and Net Profit both gives the same amount of profit.
6. The role of financial manager is to manage risks.
7. A bond payable is a mere promise to pay.
8. Default means honouring the investment on its due date.
9. Securities are financial Assets.
10. Short term investments are made to gain control over the company.

Q.2(A) A deposit of Rs. 10,000 is made to earn interest @ 12% p.a for a period of 1 year. Find out the future value of this deposit if the compounding period is: **CO1 (AP) (15)**

(a) Annually (b) Half-yearly (c) Quarterly

OR

Q.2(B) The cash flow streams for two alternative investments Tata and Bata are: **CO2 (AP) (15)**

YEAR	Tata (Rs.)	Bata (Rs.)
0	(2,00,000)	(2,10,000)
1	50,000	80,000
2	80,000	60,000
3	1,00,000	80,000
4	80,000	60,000
5	60,000	80,000

Calcultate the (i) Pay back period, (ii) Net present value using 11% discount rate (iii)Which would you choose? Why ?

Year	1	2	3	4	5
PVF @ 11 %	0.901	0.812	0.731	0.659	0.593

Q.3 (A) From the following Capital Structure of Perfect Ltd. calculate overall cost of capital, using (a) book value weights and (b) market value weights. **CO2 (AP)** **(15)**

SOURCE	Book value	Market value
Equity shares of rs.10 each	4,50,000	9,00,000
Retained earning	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 10% and Debentures. 5%.

OR

Q.3 (B) Goodshape company has currently, an ordinary share capital of Rs. 25 lakhs, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 lakhs to finance major programme of expansion through one of four possible financing plans. The plans are : **CO2 (AP)** **(15)**

(i) Entirely through ordinary shares.

(ii) Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through long-term borrowing at 8 percent interest per annum.

(iii) Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through long-term borrowing at 9 per cent interest per annum.

(iv) Rs, 10 lakhs through ordinary shares and Rs. 10 lakhs through preference shares with 5 percent dividend.

The company's expected earnings before interest and taxes (EBIT) will be Rs. 8 lakhs. Assuming a corporate tax rate of 50%, determine the earnings per share (EPS) in each alternative and comment on it.

Q.4.A Calculate the market price of shares as per Walter Model and Gordon Model. **CO2 (AP)** **(15)**

Retention ratio	50%
Internal rate of return	20%
Cost of capital	16%
Dividend per share	Rs 3
Earning per share	Rs 5

OR

Q.4 B Company can make either of two investments at period .Assuming a required rate of return of 10%, determine for each project: **CO2 (AP)** **(15)**

	Project P	Project Q
Cost of Investment (Rs.)	2,00,000	2,80,000
Expected Life (no salvage)	5 years	5 years
Projected net income (after depreciation , interest and taxes)	Rs.	Rs.

Year		
1	10,000	24,000
2	10,000	24,000
3	20,000	24,000
4	20,000	24,000
5	20,000	24,000

Calculate
(a) the discounted pay back period,
(b) the profitability index, and
You may assume straight line depreciation.

Q5A Define Financial Management. What are the objectives of Financial Management ? (8)
CO1 (U)

Q5B Distinguish between Equity Share Capital and Preference Share Capital. CO1 (U) (7)

OR

Q5 Short Notes (any 3) CO1 , CO (U) (15)
(a) Role of Treasurer and Controller.
(b) Trade Credit.
(c) Dividend Payout Ratio.
(d) Cash Inflows.
(e) Bank overdraft

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