TY BAF Sem-V Dec-2023

Paper / Subject Code: 44804 / Financial Management - II

Time 2½ Hours **Total Marks :75**

Note: 1) All the question are compulsory
2) Round off upto 2 decimals unless specified in the question

Q1A. Select the correct option and complete the sentence: (Any8) **(8)**

1) One of the objectives of Financial Management is____________

a) decrease in profits b) reduction of EPS
c) decrease in shareholder wealth d) minimize risk

2) Capital Budgeting decision does not include______
a) purchase of assets b) replacement of assets
c) recovery of bad debts d) expansion activities

3) The cost of an asset is Rs.5,00,000 and has estimated life of 5 years. The salvage value at the end of 5 years will be Rs. 20,000. The depreciation p.a. under Straight Line Method will be________

a) Rs. 20,000 b) Rs. 40,000 c) Rs. 96,000 d) Rs.1,00,000

4) The following method of Capital budgeting does not take into consideration the time value of money_________

a) Profitability Index b) Net Present Value c) Payback Period d) Internal Rate of Return

5) Under the ____________ Dividend Policy, the Dividend paid is less.

a) Stable b) Liberal c) Conservative d) Fixed

6) According to __________ Dividend Theory, Dividend is not relevant for shareholder's wealth.

a) Walter b) Modigliani- Miller c) Graham – Dodd d) Durant

7) ___________ Mutual Funds invest in liquid instruments.

a) Equity b) Debt c) Sectoral d) Money Market

8) The value which a bond holder will receive at the time of maturity is called________ value.

a) Market b) Par c) Redemption d) Coupon

9)Ageing schedule classifies Debtors on the basis of __________

a) Outstanding Period b) Outstanding Amount c) Bills drawn d) Discount allowed

10) _________ is an internal factor affecting a company's Dividend Policy.

a) Government Regulations b) State of the Economy
c) Statutory Provisions d) Liquidity

Q1B. Match the column (Any 7) **(7)**

Column A		Column B	
1	Retained Earnings	A	Face value = Issue Price
2	Replacement of Equipment	B	Bad debts
3	Benefit Cost Ratio	C	Credit Investigation and Supervision Cost
4	Decision Tree	D	Shareholder funds
5	Entry Load	E	Capital Budgeting Decision
6	Hybrid Funds	F	Profitability Index
7	Maturity Value	G	Risk Analysis
8	Issued at Par	H	Buy
9	Default Cost	I	Balanced Fund
10	Administrative Cost	J	Principal Plus Interest

Q2A. Rajshree products want to introduce a new product with estimated sales life of 5 years **(15)**
The manufacturing equipment will cost Rs 25,00,000 with scrap value of 1,50,000 at the end of 5 years. The working capital requirement is Rs 2,00,000 which will be realized after 5 years
The profit before depreciation and tax is given below

Year	Rs
1	12,50,000
2	15,00,000
3	18,75,000
4	18,00,000
5	11,25,000

The PV factor applicable is 8% and tax rate is 50%. Calculate payback period and net present value of the project.

OR

Q2B. PQR ltd is considering a project for which the following estimates are available. **(08)**

Initial cost of the Project	Rs 5 lacs
Sales price/unit	Rs 75
Cost per units	Rs 45
No of units Sold p.a	6000
Life of the project	5 years
Cost of Capital	9%

Calculate the sensitivity of the project with project cost, annual cash flow and state which is the most sensitive?

Q2C. The total available budget for a company is 20 Lacs . **(07)**

Project	Cost (Rs Lakhs)	NPV in lakhs
M	6	3
N	5	1.25
O	7	1.40
P	2	0.30
Q	5	0.50
R	13	5.20

Which projects should be undertaken by the company in order to maximize the Net Present Value under Capital Rationing assuming that each Project is indivisible?

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Q3A. Speed Up International ltd has Equity Share Capital of Rs.5 crores, each share having **(15)** a Face value of Rs.100 each. It wants to raise further Rs.3 crores for its expansion purpose. The company has the following alternatives for financing its expansion:

1) By issuing Equity shares only
2) Rs.1 crore through equity shares and Rs.2 crores through 10% Debentures
3) By using Term loan at 10% Interest p.a.
4) Rs.1 crore through Equity Shares and Rs.2 crores through 8% Preference Shares

The estimated Earnings before Interest and Tax (EBIT) after expansion is Rs.1.5 crores. Tax rate is 35%. You are required to suggest the best financing alternative.

OR

Q3B. Neon Ltd has paid up Equity capital of Rs.80, 00,000 in shares of Rs.100 each. The earnings of the company was Rs.8,00,000. The company paid Dividend of Rs.6,40,000. Required Rate of retun 10% and Cost of capital is 8%. Using Walter's formula, calculate the Market Price of the Share. **(08)**

Q3C.. Forex Ltd paid a dividend of Rs.5 per share last year. It is expected to grow at 15% for next two years and then at 8% indefinitely. The required rate of return on Equity is 15%. Calculate the price per share using Gordon Dividend Growth Valuation Model. The Present Value factor at 15% for Year 1 = 0.8696 and Year 2= 0.7561 **(07)**

Q4A. A trader whose current sales is Rs. 10 Lakh p.a and has an average collection period of 30 days and wants to place a more liberal credit policy to improve sales. Selling price p.u is Rs. 10, average cost p.u is Rs. 6 and variable cost p.u is Rs. 4. Current Bad Debts loss is 1%. The company expects pre – tax return on investment @ 25%. Suggest which credit policy should be adopted. Assume 360 days in a year. **(15)**

Credit Period	Increase in Collection Period (Days)	Increase in Sales (Units)	Default Anticipated (%)
I	15	20,000	1.5
II	25	40,000	2.5
III	30	60,000	3.5
IV	40	70,000	4.5

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OR

Q.4B. What is YTM of each Bond? Which Bond would you recommend for investment? **(8)**

Bond	Coupon Rate	Maturity	Price/Rs.100 Par Value
Bond P	6%	3 years	Rs. 90
Bond Q	12%	5 years	Rs. 70

Q.4C. A bond of Rs. 100 face value carrying an annual interest rate of 7% is redeemable after 5 years at a premium of 20 % if the required rate of return is 12% what is the present value of the Bond and should the investor buy the bond if the current market price of the bond is Rs. 95? **(7)**

Q5.A What are the steps in the evaluation of credit policies? **(8)**

B Explain the objective of strategic financial management **(7)**

OR

Q5C. Write short notes on (any 3) **(15)**

a. Interest rate risk
b. Various parties in Mutual fund
c. Credit evaluation
d. Indifference analysis
e. Wealth Maximation

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