FYBAF/SEM I/EXT/FM

Time: 2½ hrs.

Marks:75

Note:
1. All questions are compulsory with internal options.
2. Figures to the right indicate full marks.
3. Draw neat diagram wherever necessary.

Q. 1 (A) Fill in the blanks with the correct answer from the alternatives given below. (Attempt any 8) **(08)**

(1) Combined Leverage = Operating Leverage * ____________

a) Financial leverage b) Risk leverage c) Return leverage d) Neutral leverage

(2) Financial Management minimizes _____

a) Risk b) ROI c) Value d) Profitability

(3) ________ is not an element of Financial Management.

a) Allocation of resources b) Financial Planning
c) Financial Decision- Making d) Corporate Social Responsibility

(4) _____ is the process of finding the future value by adding interest to principal amount.

a) Compounding b) Discounting c) Present value of Annuity d) Interest rate

(5) Which of the following cost of capital requires tax adjustment?

a) Cost of Equity Shares b) Cost of Preference Shares
c) Cost of Retained earnings d) Cost of Debentures

(6) Operating leverage examines

a) The effect of change in the quantity produced on EBIT of the company
b) The effect of change in EBIT on the EPS of the company
c) The effect of change in output on the EPS of the company
d) The effect of change in EPS on the output of the company

(7) Debt Financing is a cheaper source of finance because of

a) Time value of Money b) Rate of Interest
c) Tax-deductibility of Interest d) Dividends not payable to lenders

(8) The term 'redeemable' is used for

a) Commercial paper b) Equity shares
c) Preference shares d) Public deposits

(9) Equity shareholders are

a) Creditors b) Owners c) Loan creditors d) Borrower

(10) Which of the following statements represents the financing decision of a company?

a) Procuring new machines for Research & Development
b) Recruiting new employees
c) Designing an optimal structure by using an appropriate financial instrument
d) Adopting state of the art Technology

(B) State whether the following statements are true or false. (Attempt any 7) **(07)**

(1) Investment is the employment of funds on assets to earn returns.

(2) The primary goal of the financial management is to maximize the wealth of owners.

(3) The Financial Leverage (FL) measures the relationship between the EBIT and the EPS and it reflects the effect of change in EBIT on the level of EPS.

(4) The company's average cost of capital is the average cost of shares and all sources of long-term funds.

(5) Capital budgeting is the process a business undertakes to evaluate potential major projects or investments.

(6) Market value is the price an asset would fetch in the marketplace.

(7) Financial Management is mainly concerned with all aspects of acquiring and utilizing financial resources for the firm's activities.

(8) Financial managers are responsible for the financial health of an organization.

(9) Operating leverage measures a company's fixed costs as a percentage of its total costs. It is used to evaluate the break-even point of a business, as well as the likely profit levels on individual sales.

(10) The financial leverage helps to understand EPS and EBIT.

Q.2 A Find present value of Rs. 50,000 receivable after 8 years if the rate of interest is 10%. **(7)**

B Kavi deposits Rs. 25000 annually in a bank for 5 years. 15% per annum interest rate. What is the future value of this annuity at the end of the 5 years. **(8)**

OR

Q.2 P K Ltd., firm whose cost of capital is 10% is considering to take up any one of projects
A or B. Calculate NPV and Suggest which option to choose and give reasons. **(15)**

Year	Project A	Project B
Investment	8 Lakhs	8Lakhs
1	4 Lakhs	2 Lakhs
2	2 Lakhs	2 Lakhs
3	2 Lakhs	4 Lakhs
4	2 Lakhs	2 Lakhs
5	2 Lakhs	2 Lakhs

Q.3 A Calculate operating, financial and combined leverages for the firm. **(15)**

The capital structure of the firm consists of Rs.10,00,000 (shares of Rs. 100 each) and 10% debenture of Rs.10,00,000. The unit sales increased by 20% from 100,000 units to 1,20,000 units, selling price Rs.10 P.U., Variable cost Rs.6, and fixed cost Rs. 200000. Tax rate 35%. Find for both units.

OR

Q.3 P From the following, prepare the income statement of all companies. (15)

Particulars	A	B	C
Variable cost	5	4	3
Fixed cost per annum	12,000	5,000	7,500
Selling price P.U.	9	8	10
Output units	75,000	50,000	45,000
Interest	15,000	17,000	16,000

And calculate Operating, Financial and Combined Leverage for all 3 companies.

Q.4 A Calculate WACC at Book value and Market value (15)

Sources	Book value	Market value
Equity shares capital @ Rs.10 each	90000	180000
Retained earnings	30000	---
10% Preference Share capital	20000	20000
12% Debentures	60000	60000

The after tax cost of different sources of finance is as follows:
Equity shares 14% and Retained earnings 13%.

OR

Q.4 P Find cost of preference shares. Total value Rs. 10 Lakhs. (7)
Rs.100 preference shares redeemable at par, 15 years maturity, 10% dividend rate, 5% floatation cost and sales price Rs.100.

Q Find cost of debentures. (8)

I) Rs.100 debentures redeemable at par, 20 years maturity, 8% coupon rate, 4% floatation cost and sales price Rs.100. Total Value 20 Lakhs

II) 20% debentures, Rs.100 each for total value Rs.500,000, issued at discount 10%, redeemable at par.

Q.5 A Give scope of financial management. (7)
B Explain long term sources of finance. (8)

OR

Q.5 **Write short notes on (Attempt any 3)** (15)

(1) Advantages of issuing Equity shares
(2) Functions of Chief Financial officer
(3) Profit maximization
(4) Retained Earnings
(5) Bank overdraft

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