Time: 2½ hrs. Marks:75

Note:
1. All questions are compulsory with internal options.
2. The figures to the right indicate full marks.
3. Draw a 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) The most important goal of financial management is ____________ .
- (a) Corporate Social Responsibility
- (b) Matching income and expenditure
- (c) Using business assets effectively
- (d) Wealth maximisation

(2) Which of the following is a function of the finance manager?
- (a) Mobilizing funds
- (b) Deployment of funds
- (c) Control over the uses of funds
- (d) All of the above

(3) Management of all matters related to an organisation's finances is called ________ .
- (a) Cash inflows and outflows
- (b) Allocation of resources
- (c) Financial management
- (d) Finance

(4) Which of the following sources of funds has an Implicit Cost of Capital?
- (a) Preference Share Capital
- (b) Equity Share Capital
- (c) Retained earnings
- (d) Debentures

(5) Which of the following has the highest cost of capital?
- (a) Loans
- (b) Equity shares
- (c) Bonds
- (d) Preference shares

(6) Weighted Average Cost of Capital is generally denoted by ________ .
- (a) KA
- (b) Kw
- (c) Ko
- (d) Ka

(7) Financial Leverage is calculated as_________ .
- (a) EBIT / Contribution
- (b) EBIT / Sales
- (c) EBIT / EBT
- (d) EBIT + Variable Cost

(8) Operating Leverage is calculated as ___________ .
- (a) Contribution / EBIT
- (b) EBIT- Interest
- (c) EBIT/ PBT
- (d) EBIT / Tax

(9) Business risk can be measured by___________ .
- (a) Financial leverage
- (b) Operating leverage
- (c) Combined leverage
- (d) None of the above

(10) Operating leverage arises because of________.

(a) Fixed Cost of Production (b) Variable Cost

(c) Fixed Interest Cost (d) None of the above

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

(1) Risk free interest rate and cost of capital are the same things.

(2) Different sources have the same cost of capital.

(3) Every source of fund has an explicit cost of capital.

(4) Cost of debt is the same as the rate of interest.

(5) Dividend on preference shares is a factor of operating leverage.

(6) Financial leverage depends upon the operating leverage.

(7) WACC is the overall cost of capital of the firm.

(8) Credit purchase can be a good source of short-term finance.

(9) In India, all types of short-term financing from banks must be secured.

(10) Cost of capital is basic data for NPV technique.

Q.2 (a) M/s Sun and Moon Co. Ltd. is considering to select on project out of two alternative projects both with life of 5 (five) years and following particulars are given : **(15)**

Particulars	Years	Project X (Rs)	Project Y (Rs)
Capital Investment	0	2,00,000	1,00,000
Income	1	60,000	50,000
	2	40,000	45,000
	3	40,000	30,000
	4	35,000	30,000
	5	40,000	20,000

The expected rate of return is 14% p.a. The present value of Rs 1 at 14% p.a. from year 1 to 5 is as under:

Year	1	2	3	4	5
PV factor	0.88	0.77	0.68	0.59	0.52

You are required to calculate the comparative profitability of the two projects by using the net present method.

OR

Q.2 (p) A Company has to make a choice between three possible investments- Projects A, B and C; the immediate capital outlays on each being Rs 11,000. Each will continue for 5 years and it has been decided that a discount rate of 10% is acceptable for all three. The cash flows before depreciation for these projects are: (15)

Years	A (Rs)	B (Rs)	C (Rs)
1	1,000	2,000	3,000
2	2,000	3,000	4,000
3	3,000	5,000	3,500
4	4,000	3,000	2,500
5	5,000	2,000	2,000

The discount factor at 10% is :

1st year 0.909

2nd year 0.826

3rd year 0.751

4th year 0.683

5th year 0.621

Which project would you recommend and why?

Q.3 (a) The data relating to two companies are given below: (15)

Particulars	Company A (Rs)	Company B (Rs)
Equity capital	6,00,000	3,50,000
12% Debenture	4,00,000	6,50,000
Output (Units)Per annum	60,000	15,000
Selling price per unit	30	250
Fixed cost per annum	7,00,000	14,00,000

Variable cost per annum	10	75

You are required to calculate: (Both the companies)

a) Operating leverage
b) Financial leverage
c) Combine leverage

OR

Q.3 (p) The following details relating to a company are given (08)

Sales per annum	1,00,000 units
Variable Cost	Rs 90 per unit
Fixed Cost including Interest per annum	Rs 18,00,000 /-
Selling Price per unit	Rs 120 /-
10% Debentures	Rs 30,00,000 /-
Corporate Tax Rate	30%

Calculate: (1) Operating Leverage (ii) Financial Leverage (iti) Combined Leverage.

(q) A firm has sales of Rs 40 lakhs; Variable cost of Rs 25 lakhs; Fixed Costs of Rs 6 lakhs; (07)

10% debentures of Rs 30 lakhs; and Equity Capital of Rs 45 lakhs of Rs 10 each.

Calculate:

Operating leverage

Financial leverage

Combine leverage

EPS

Q.4 (a) The following information relates to the sources of long term finance used by Pioneer Industries Ltd.: (15)

Source	Book value (Rs in Lakhs)	Market value (Rs in Lakhs)
Paid-up Equity Share Capital	300	800
Reserves and Surplus	400	-
Preference Shares	125	145

Debentures	250	245

Cost of Equity Share Capital =20%

Cost of Preference Share Capital = 15%

Post Tax Cost of Debenture Capital = 8%

Calculate the difference between the weighted average cost using book value weights and market value weights.

OR

Q.4 **(p)** M Ltd. issued Rs 100 lakhs 12% preference shares of Rs 100 each redeemable at par after 5 years Calculate the Cost of Preference Share in each of the following cases: (Assume dividend tax rate being 20%.) **(08)**

Case (a) : If Preference shares are issued at par with no flotation cost.

Case (b) : If Preference shares are issued at par with 5% flotation cost on issue price.

Case (c) : If Preference shares are issued at 10% premium with 5% flotation cost on issue price

Case (d) : If Preference shares are issued at 10% discount with 5% flotation cost on issue price.

(q) A company issues 25,000, 14% Debentures of Rs 1,000 each. The debentures are redeemable after the expiry period of 5 years. Tax Rate applicable to the company is 35% (including Surcharge and Education Cess). **(07)**

Calculate the Cost of Debt after Tax, if debentures are issued at 5% discount; with 2% Flotation Cost (on Face Value).

Q.5 **(p)** Explain the importance of financial management. **(08)**

(q) What is equity capital? Explain its advantages and disadvantages. **(07)**

OR

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

(1) WACC

(2) Financial Management

(3) Cost of capital

(4) Leverage

(5) Retained earnings

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