Class / Semester / Subject Code – F Y B. Com. (A & F) / I / UA_FFSI.3 Financial Management (Introduction to Financial Management) I

Date: 21.11.2019 Time: (2 ½ Hours) Total Marks: 75

N.B. 1) All questions are compulsory
2) Figures to the right indicate full marks

Q.1. A Choose correct alternative in each of the following. (**Any Eight)** (10)

i. ___________of a firm refers to the composition of its long-term funds and its capital structure.
a. Capitalisation b. Over-capitalisation
c. Under-capitalisation d. Market capitalization

ii. ____is the price at which the bond is traded in the stock exchange.
a. Redemption value b. Face value
c. Market value d. Maturity value

iii. Cost of capital may be defined as ___________.
a.Weighted Average cost of all debts
b. Rate of Return expected by Equity Shareholders
c. Average IRR of the Projects of the firm
d. Minimum Rate of Return that the firm should earn

iv. In order to calculate Weighted Average Cost of weights may be based on _____.
a. Market Values b.Target Values
c. Book Values d. All of the above

v. Operating leverage helps in analysis of___________.
a. Business Risk b. Financing Risk
c. Production Risk d. Credit Risk

vi. _________is the following is studied with the help of financial leverage.
a. Marketing Risk b. Interest Rate Risk
c. Foreign Exchange Risk d. Financing risk

vii. Combined Leverage is obtained from OL and FL by their:___________.
a. Addition b. Subtraction
c. Multiplication d. Any of these

viii. Time value of money is based on the principle of ___________.
a. A stich in time; saves nine
b. A bird in hand; is worth two in a bush
c As you sow; so shall you reap
d. Hard work pays in the long run

ix. Cost of issuing new shares to the public is known as ___________.
a. Cost of Equity b. Cost of Capital
c. Flotation Cost d. Marginal Cost of Capital

x. Dividend declared between two Annual General Meetings (AGM's) is termed as ___________.
a Stock dividend b. Cash dividend
c Interim dividend d. Liquidation dividend

B State whether the following statements are True or False (**Any Seven)** (05)

i. Bonds do not have a maturity date.
ii. Investors have a preference for present money.

iii. Combined leverage is also known as total leverage.
iv. Operating leverage exits if there is an operational fixed cost.
v. Bank overdraft is also a source of short term finance.
vi. Equity share capital is the safest.
vii. Interest is tax deductible.
viii. Brokerage is an example of floatation cost.
ix. WACC is overall cost of capital.
x. Retained earnings are outside funds.

Q.2. A Find the future value of the deposit of RS. 100000 @ 16 % p.a. compounded (15)
(a) Annually
(b) Semi annually
(c) Quarterly
(d) Monthly.

**OR**

Q.2. A The present value of annuity of RS. 10000 received annually for five year when discounting factor is 10% (8)

B what is the present value of the following cash flows if the discount rate is 14 % p.a. (7)

| Year | 0 | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| Cash flows Rs. | 5000 | 6000 | 8000 | 9000 | 8000 |

Q.3. A Vivek Ltd. Issued Rs. 50 lacs, 15 percentage debenture of Rs.100 each. Tax rate is 40%. Calculate the cost of debt in following cases: (8)
(1) if the issue is at par with 5% for flotation cost
(2) If the issue is at 10% premium with 5 percentage flotation cost.

B Samay Ltd. issues 12 percentage debenture of face value Rs. 100 each and realizes Rs. 95 per debenture. The debenture are redeemed after 10 years at a premium of 10%. Assuming a tax rate of 50% calculate cost of debt. (7)

**OR**

Q.3. A A. Darpan Ltd. issued 20000 equity shares of Rs. 10 each at a premium of Rs. 2 each. The company has incurred share issue expenses of Rs. 5000. The equity shareholders expect a dividend of 18% p.a. calculate the cost of equity share capital as per dividend yield model. (8)

B Shilpa Ltd. has 3800 equity shares of Rs. 100 each at per. The company pays dividend of 12% and growth in dividend is expected to be 6 % If the market price equity share is 175, calculate the cost of existing equity share. (7)

Q.4. A The selected financial data of firm X & Z for the year ended 31st March 2018 are as follows: (8)

| Particulars | X | Z |
|---|---|---|
| Sales | 10,00,000 | 20,00,000 |
| Variable cost | 20% of sales | 20% of sales |
| Fixed cost | 4,00,000 | 1,00,000 |
| Interest | 50,000 | 1,00,000 |

Calculate DOL, DFL and DCL.

Which of the two firms have greater risk?

B Compute DOL, DFL and DCL for following firms: (7)

| Particulars | Ganga | Jamuna | Yamuna |
|---|---|---|---|
| Sales price per unit (Rs.) | 1.00 | 2.00 | 0.50 |
| Variable cost per unit (Rs.) | 0.50 | 1.50 | 0.10 |
| Fixed cost (Rs.) | 7,000 | 14,000 | 1,500 |
| Output (units) | 50,000 | 25,000 | 1,00,000 |
| Interest on borrowed funds (Rs.) | 4,000 | 8,000 | Nil |

**OR**

Q.4. A The following information of two companies A & B are given. Calculate leverages for both the companies. Which company has greater risk? (8)

| Particulars | A | B |
|---|---|---|
| Sales | 50,00,000 | 80,00,000 |
| Variable cost | 20,00,000 | 25,00,000 |
| Fixed cost | 12,00,000 | 15,00,000 |
| Interest | 8,00,000 | 12,00,000 |

B Calculate the leverages under situation I & II and financial plans A and B respectively from the following information relating to the operation and capital structure of the company. (7)

Which combination of operating and financial leverage give highest and the least value?

Installed capacity - 1500 units
Actual production and sales-1200 units
Sales price per unit - Rs. 25
Variable cost per unit - Rs. 18
Fixed cost under situation I - Rs. 1400 and under situation II - Rs. 2400

**Capital structure**

| Particulars | Financial plans | |
|---|---|---|
| | Plan A | Plan B |
| Equity | 80,000 | 60,000 |
| Debt (interest rate 10%) | 20,000 | 40,000 |
| Total | 1,00,000 | 1,00,000 |

Q.5. A Define financial management and explain its objectives. (8)

B Write short note on equity share capital (7)

**OR**

Q.5. Attempt **any Three** of the following (15)

A Profit maximization
B Concept of Present Value
C Financial needs
D Leasing
E Qualities of finance manager