/ Block No: 35 L-14 PQ3ADE SY BBI fin mgmt 7.30 to 10.00am

MARKS-75 **DURATION-2hrs30min**

Notes – All the questions are compulsory carryinh 15 marks each.

Q.1) A) Fill in the blanks with appropriate choices **(8M)**

1) Time required to recover the cost of project is called _________. (payback period, net present value, profitability index, average acounting return)
2) _________ Cost affect the cost of raising the capital at the time of issue of new securities. (Dividend, Interest, Flotation , none of above)
3) _________leverage indicates the effect on the earnings due to rise of fixed financial costs funds. (Operating, Financial, Combined, all the above)
4) Working Capital is also called as_______. (Net current assets, Current Assets addition, Current liabilities, All the above)
5)_________ ratio is related with capital structure of the company.(Debt- Equity,Stock turnover, Debtors Turnover, Liquid Ratio.)
6) A shareholder invests in the company's shares mainly _________. (for capital appreciation, To receive divedend, To receive bonus shares, To get income regularly)
7) Working capital is a ____________ source of finance. (long trem, short term, medim term, none of above)
8) _________ is tax deductible expenditure. (Dividend to preference shares, Interest on debentures, Equity Dividend, None of above)

B) State whether the following statements are true or false. **(7M)**

1) Capital Structure includes stock and debt.
2) Finished goods are valued at cost of production while calculating working capital.
3) There is positive relation between risk and return.
4) Cost of capital is not used in capital budgeting decision.
5) While calculating ARR present value factor is considered.
6) Equity investors are high risk beares.
7) Highest EPS indicates that the financial plan must be selected.

Q.2) A company has initial capital outlay of Rs 2, 20,000 The Deprecition rate is 10% pa. under Straight Line Method. Profit after depreciation and after all other charges is as under

Year	Profit After Depreciation(Rs)
1	1,00,000
2	90,000
3	80,000
4	80,000
5	50,000

The company's expectated rate of return is 10%. The present value of Re 1 to be received at the end of each year is given below-

Year	1	2	3	4	5
PV	0.909	0.826	0.751	0.683	0.621

Factor@10%					

Ignore Taxation and Calculate-

1) Pay Back Period
2) ARR based on Average Investmnets
3) NPV

(15M)

OR

Q.2) A Company can make either 2 investments at a period assuming required rate of return @ 10% determine for each project

(15M)

1) Discounted Payback Period
2) Profitability Index

Particulars	Project P	Project Q
Cost of Incestments	Rs 2,00,000	Rs 2,80,000
Estimated Life	5 Years	5 Years

The Profit after Depreciation, Interest and tax is as under.

Years	Project P (Rs)	Project Q (Rs)
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

The present value factor @ 10% is as under.

Year	1	2	3	4	5
PV factor @ 10%	0.909	0.826	0.751	0.683	0.621

Q.3) Following is the capital structure of the company.

Particulars	Amount in Rs
40,000 Equity Shares	80,00,000
10% Preference Shares	20,00,000
14% Debentures	60,00,000

The shares of the company are presently selling at Rs 20/- per share. It is expected that the company will pay dividend of Rs 2 per share next year which will grow @ 7% for ever. The tax rate is 40%.

1) Calculate the Weighted Average Cost of Capital based on existing capital structure.

2) If the company proposes to raise additional capital of Rs 40, 00,000 by issuing 15% Debentures, the expected dividend will be Rs 3.At the end of the year the market price of the shares will fall to Rs 15/- per share growth rate will remain same.
3) Calculate the New Weighted Cost of Capital. **(15M)**

OR

Q.3) Calculate Earning Before Interest and Tax, Degree of Operating Leverage, Degree of Financial Leverage and Degree of Combined Leverage for 4 firms A,B,C and D. **(15M)**

Particulars	A	B	C	D
Sales in Units	30,000	35,000	40,000	45,000
Selling Price Per Unit in Rs	15	20	20	15
Variable Cost Per Unit in Rs	10	15	15	10
Fixed Cost in Rs	35,000	35,000	35,000	35,000
Interest in Rs	15,000	25,000	35,000	40,000
Tax Rate	40%	40%	40%	40%

Q.4) Following is the capital structure of the company. The expected Earnings before Interest and Tax is Rs 9, 00,000.

Particulars	Rs
Equity Shares of Rs 100 each	20,00,000
Retained Earnigs	10,00,000
9% Prefernce Shares	12,00,000
7% Debentures	8,00,000
Total	50,00,000

The tax rate is 50%. The company is willing to expand the business hence it requires additional capital of Rs 25,00,000 for which following alternatives are available to it.

1) Issue of 25000 equity shares at Rs 100 per share.
2) Issue of 10% Preference Shares.
3) Issue of 8%Debentures.

Suggest which alternative company should accept. **(15M)**

OR

Q.4) From the given data, prepare the statement of estimated working capital requirement for 2400 units Per Annam. Production and Sales will be uniform through out the year.

1) Selling price per unit Rs 500.
2) Materials are 50% of selling price, wages 15% of selling price and overheads are 25% of selling price.
3) Raw materilas remain in stock for 1 month.
4) WIP to be maintained for 1 month.
5) Finished goods stock to be maintained for 3 months.

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6) Credit allowed to the customers is 1 month and credit allowed by suppliers is 2 months.
7) Cash and bank balance to be maintained at Rs 20,000.
8) The margin of safety to be maintained is 12% of working capital. **(15M)**

Q.5) Write Shortnotes on (Any 3) **(15M)**

1) Features of Capital Expenditure Decision
2) Cost of Equity Share capital
3) Meaning and Importance of Leverage
4) Essentials of an Optimum Capital Structure
5) Gross Working Capital and Permanent Working capital