

PQ10ABR

L

Coop. Finance  
7/10/16

Marks: 75

Duration: 2.5hrs

Note: All questions are compulsory carrying 15 marks each.

Q1. Attempt ANY TWO Questions: (15)

- Define Preference Shares and explain its types
- Define under-capitalisation and explain the causes and effects
- Explain the sources of fixed capital

Q2. Attempt ANY TWO Questions: (15)

- The existing capital structure of Jane Ltd. is as follows:

Equity Shares of rs.100 each	80,00,000
Retained Earnings	20,00,000
9% Preference Shares	50,00,000
7% Debentures	50,00,000

Company earns a return on investment of 20% and income tax rate is 35%.

Company wants to raise Rs.1,00,00,000 for its expansion project for which it is considering following alternatives:

- Issue of 80,000 equity shares at a premium of Rs.25 per share.
- Issue of 10% Preference Shares.
- Issue of 9% Debentures.

Which alternative would you consider and why?

- Sonal Ltd. has the following capital structure:

Particulars	Amount(Rs.)	After tax Cost
Equity Share Capital	8,00,000	15.6%
Retained Earnings	6,00,000	15%
Preference Shares	2,00,000	10.5%
Debentures	4,00,000	4.5%

Compute the weighted average cost of capital.

- Calculate all the leverages for the following firms:

Particulars	Firm "A"	Firm "B"
Sales(Rs.)	7,20,000	15,00,000
Variable Cost p.u.	20	150
Fixed Cost(Rs.)	1,44,000	2,80,000
Output(in units)	12000	3000
Interest	60,000	1,60,000

**Q3. Attempt ANY TWO Questions:**

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**(15)**

- a) Anish Ltd. Gives you the following information about the project having cost Rs.20,00,000 and an estimated life of 5 years:

YEAR	1	2	3	4	5
Net Profit after depreciation & tax	1,20,000	1,20,000	1,60,000	1,60,000	1,60,000

Assuming a required rate of return of 10%, calculate ARR, NPV & PI.

- b) Calculate IRR and NPV of Arjun Ltd.  
Initial Investment: Rs.14,40,000  
(consider cost of capital at 15% and 16%)

YEAR	1	2	3	4	5
CFAT	5,80,000	2,60,000	5,60,000	1,80,000	5,60,000

- c) i) Rahul deposits Rs.3,00,000 with the bank which pays 12% interest compounded annually for a period of 3 years. How much amount will he get on maturity?  
ii) Find the Present Value of Rs.1,50,000 receivable after 3 years if the rate of interest is 10%.

**Q4. Attempt ANY TWO Questions:****(15)**

- d) Explain the advantages of Public Deposits  
e) Explain advantages & disadvantages of Foreign Direct Investment  
f) Explain different types of Foreign Collaboration

**Q5. Solve the following:****(15)**

- b) A company has the following capital structure:

Particulars	Rs.
Equity Shares(50,000 shares)	10,00,000
6% Preference Shares	2,50,000
8% Debentures	7,50,000
<b>TOTAL</b>	<b>20,00,000</b>

The share of the company sells for Rs.20. It is expected that the company will pay next year a dividend of Rs.6 per share which will grow at 10% forever. Assume 35% tax rate.

- iv) Compute weighted average cost of capital based on existing capital structure.  
v) Compute the new weighted average cost of capital if the company raises an additional Rs.5,00,000 debt by issuing 10% Debentures which would result in increasing the expected dividend to Rs.8 and leave growth rate unchanged but the price of the share will fall to Rs.16 per share.