

Q.P. Code 00000375

[Time:2.30 Hrs]

[Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. All question are compulsory.
 2. Figures to the right indicate full marks.
 3. Students answering in the regional language should refer in case of doubt to the main text of the paper in English.

- Q.1 A Select the most appropriate alternative (Attempt any Eight) [08]
1. The ultimate objective of financial management is
 - a. Profit maximisation
 - b. Wealth maximisation
 - c. Both of the above
 - d. None of the above
 2. Management of all matters related to an organisation's finance is called
 - a. Cash inflows and outflows
 - b. Allocation of resources
 - c. Financial management
 - d. Finance raising
 3. Which of the following is a function of the finance manager?
 - a. Mobilizing fund
 - b. Deployment of funds
 - c. Control over the of funds
 - d. All of the above
 4. Time value of money facilitates comparison of cash flows occurring at different time periods by
 - a. compound all cash flows to a common point of time
 - b. discounting all cash flows to a common point of time
 - c. using other (a) and (b)
 - d. neither (a) nor (b)
 5. Operating leverage helps in analysis of
 - a. Business Risk
 - b. Financing Risk
 - c. Production Risk
 - d. Credit Risk
 6. Which of the following is studied with the help of financial leverage?
 - a. Marketing Risk
 - b. Interest Rate Risk
 - c. Foreign Exchange Risk
 - d. Financing risk
 7. Combined Leverage is obtained from OL and FL by their
 - a. Addition
 - b. Subtraction
 - c. Multiplication
 - d. Any of these
 8. High degree of financial leverage means
 - a. High debt proportion
 - b. Lower debt proportion
 - c. Equal debt and equity
 - d. No debt
 9. Which of the following is true with respect to commercial paper (CP)?
 - a. These are issued in multiples of 1 lakh

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- b. The minimum amount to be invested by a single investor is 5 lakhs
- c. The minimum maturity period is 30 days
- d. The issuer cannot buy back these instruments
- 10. Which of the following sources of funds has an Implicit Cost of Capital?
 - a. Equity Share Capital
 - b. Preference Share Capital
 - c. Debentures
 - d. Retained earnings

Q.1 B State whether the following statement is true or false (Attempt any Seven) [07]

1. Financial managers and financial accountants have the same role.
2. Government department does not require financial management
3. Workers do not benefit from the financial management of the organisation
4. Dividend decisions are not important.
5. Annual interest rate is same as effective interest rate.
6. Discounting factor is used to find the present value
7. Rule of 69 is used to determine the doubling period
8. Financial leverage is equal to 1, when interest will be zero.
9. Treasury bills are issued by corporates
10. External Equity is cheaper than Internal Equity.

Q.2 A Prize Ltd. wants to issue bonds which will be redeemed after 10 years at par.[15]
Bonds will be listed in the market at the par value of ₹ 10,000. The coupon rate is 9%. If the expectation of the shareholders is 8%, what should be the issue price of the bonds?

OR

Q.2 B Arjun Ltd. wants to invest in either of the two projects, please suggest which[15]
project should be selected. The discounting factor should be taken as 10%

Year	Project A	Project B
1	80,000	60,000
2	70,000	90,000
3	50,000	60,000
4	75,000	70,000
5	60,000	70,000
6	50,000	40,000

Q.3 A The following are the financial statements of Rudra Ltd. [15]

Balance Sheet as on 31.03.2022

Liabilities	Amount (₹)	Assets	Amount (₹)
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Equity Share Capital	40,00,000	Fixed Assets	80,00,000
12% Debentures	60,00,000	Investments	10,00,000
		Working Capital	10,00,000
	1,00,00,000		1,00,00,000

Income statement

Particulars	Amount (₹)
Sales	40,00,000
Operating Expenses	10,00,000

Additional information:

- The operating expenses comprises of fixed expenses amounting to ₹ 3,00,000.
- Industrial Standards are as listed below
 - Operating Leverage 2:1
 - Financial Leverage 1.25:1
 - Combined Leverage 2.50:1

You are required to calculate:

- Operating Leverage
- Financial Leverage
- Combined Leverage
- Comment on the leverages position of the organisation with respect to Industrial standards.

OR

Q.3 B The following data is provided in respect of Tea Ltd. and Coffee Ltd.: [15]

Particulars	Tea Ltd.	Coffee Ltd.
Variable Cost as a percentage of Sales	20%	25%
Fixed Cost	20,00,000	16,00,000
Operating leverage	5:1	3:1
Financial leverage	2:1	2.5:1
Tax rate	30%	30%

Prepare income statements showing the Net profit after tax for both the companies.

Q.4 A Calculate the WACC using the following data [15]

- (a) Book value weights Basis & (b) Market value weights Basis

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The capital structure of the company is as under:

Particulars	Amount (₹)	Cost
Debentures (Rs 100 per debenture)	16,00,000	9%
Preference shares (Rs 100 per share)	10,00,000	11%
Equity shares (Rs 10 per share)	4,00,000	13%
Reserves and Surplus	10,00,000	12%

The market prices of these securities are:

Debenture	₹ 106 per debenture
Preference	₹ 110 per preference share
Equity	₹ 25 each

OR

Q.4 B Solve each of the independent situation [15]

- CMT Ltd. issues 1,000 19% debentures of the face value of ₹ 100 each at a discount of ₹ 5 per debentures. The income tax rate is 50%. Calculate the cost of irredeemable debentures.
- Saroj Ltd. issued 10,000 12% preference shares of ₹ 100 each at ₹ 90. The term of the issue states to redeem the preference shares at the end of 10 years at 10% premium. Calculate the cost of redeemable preference shares.
- Calculate the cost of equity capital of Shanta Ltd. The risk-free rate of return in the market is 12%. The firm's beta is 2 and the return on the market portfolio equals to 16%.

Q.5 A State the needs of finance in business? [08]

B Briefly explain the concept of profit maximisation and drawback of wealth. [07]

OR

Q.5 Short Notes (Attempt any three out of Five) [15]

- Treasury Bills
- Cost of preference shares
- Present value annuity factor
- Combined Leverage
- Break-even point