Q.P. Code:00003581

FINANCIAL MANAGEMENT

[Time: 3.00 Hrs.] **[Marks: 80]**

N.B. (1) Q.1 is Compulsory

(2) Attempt any THREE questions from the Q. No.2 to Q. No.5

1. (A) **Multiple Choice Questions.** **(10)**

1. Debentures represent
   a. Fixed capital of the company
   b. Permanent capital of the company
   c. Fluctuating capital of the company
   d. Loan capital of the company

2. Which is not an external source of finance?
   a. Equity shares
   b. Debentures
   c. Retained Earnings
   d. Preference shares

3. Financial Leverage arises because of:__________.
   a. Fixed cost of production
   b. Variable Cost
   c. Interest Cost
   d. Overhead expenses

4. Which of the following cost of capital require tax adjustment?
   a. Cost of Debentures
   b. Cost of Equity Shares
   c. Cost of Preference Shares
   d. Cost of Retained Earnings

5. In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?
   a. Common stock
   b. Debt
   c. Preferred stock
   d. Retained earnings

6. Which one of the following is not a source of long-term finance?
   a. Term Loan
   b. Equity Capital
   c. Preference Capital
   d. Commercial Paper

7. The cost of capital of a firm is
   a. The dividend Paid on Equity Capital
   b. The weighted Average of the dividends paid on equity capital and the preference capital
   c. The weighted average of the cost of various long-term sources of Finance

d. The average rate of return it must read earn on its investments to satisfy the various investors

8. Which is the most expensive source of funds?

a. New Equity Shares
b. New Preference Shares
c. New Debts
d. Retained Earnings.

9. Equity shareholders are called

a. Owners of the company
b. Partners of the company
c. Creditors of the company
d. Guardian of the company

10. Which of the following characteristics are true, with reference to preference capital?

a. Preference dividend is a tax-deductible source of funds.
b. The claim of preference shareholders is after the claim of equity shareholders
c. During liquidation, Preference shareholders are paid before debt holders.
d. Preference shareholders get a fixed rate of dividend

Q1. (b) State whether the following statement is true or false. (10)

1. Financial Planning deals with the preparation of financial statements.
2. Cash planning is a part of long-term financial planning.
3. Cash budget is an important element of profit planning.
4. Capital budgeting decisions are reversible in nature.
5. Net cash flow is on after-tax basis.
6. Cost of capital is basic data for NPV technique.
7. Different sources have same cost of capital.
8. Financial leverage is always beneficial to the firm.
9. EBIT-EPS Analysis is an extension of financial leverage analysis.
10. In the MM model, the value of the levered firm can be found by first finding out the value of the unlevered firm.

2 (A) Prepare a cash budget for 6 months ending 31st December from the monthly budgeted operating results of the company and other additional information given below (Rs. In Lakhs) **(10)**

Month	Sales	Purchases	Wages	Production OHs	Admin OHs	Selling Ohs	Distribution OHs	R&D
March	8	3.6	0.8	0.48	0.40	0.20	0.10	0.11
April	12	6	1.28	0.64	0.56	0.29	0.14	0.16
May	9.6	5.2	1.20	0.62	0.48	0.25	0.10	0.12
June	6.4	3.36	0.56	0.30	0.20	0.11	0.06	0.06
July	8	3.84	0.80	0.44	0.32	0.16	0.08	0.10
August	8.8	4	0.96	0.49	0.40	0.21	0.10	0.12

Sept	11.2	4.96	1.20	0.62	0.52	0.26	0.12	0.13
Oct	12.8	6	1.04	0.54	0.40	0.20	0.10	0.12
Nov	14.4	6.40	1.36	0.72	0.56	0.29	0.15	0.16
Dec	16	8	1.52	0.74	0.58	0.30	0.16	0.17

The period of credit allowed by suppliers is 4 months and that allowed to customer is 3 months. The delay in payment of overheads is 2 months and that in payment of wages is 1/4th of month. R&D Delay in payment is 2 months.

Taxation of Rs. 8 Lakhs payable on Nov 1. Dividends from investment due in September amounting to Rs. 4.80 Lakhs is expected on July 1 and Dec 1 equally.

(B) **Excel Ltd. is considering `three financing plans. The key information is as follows: (10)**

(a) Total Investment to be raised Rs. 2,00,000.

(b) Plan of Financing proportion:

Plan	**Equity**	**Debt**	**Preference Shares.**
A	100%	--	--
B	50%	50%	--
C	50%	--	50%

(c) Cost of Debt 8% .Cost of Preference Shares 8%.

(d) Tax rate 50%.

(e) Equity shares of the face value of Rs. 10 each will be issued at a premium of Rs. 10 per share.

(f) Expected PBIT is Rs. 80,000.

Determine for each plan Earnings per share (EPS) and recommended which plan is to be selected and why?

3(A) The following is the capital structure of a company. **(10)**

Source	Amount (Rs.)	Before tax cost (%)
Equity capital	3,00,000	15
Retained earnings	2,00,000	13
Preference capital	1,50,000	16
Debentures	3,50,000	12

Assume tax rate at 30%. **Calculate after tax Weighted Average cost of capital**.

(B) **Calculate the Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Combined Leverage (DCL) for the following firms and interpret the results. (10)**

	Firm K	**Firm L**	**Firm M**
Sales units	60,000	15,000	1,00,000
Fixed costs	Rs.7000	14,000	1,500
Variable cost per unit	Rs.0.20	Rs.1.50	Rs.0.02

Interest on borrowings	Rs.4,000	Rs.8,000	-
Selling price per unit	Rs.0.60	Rs.5.00	Rs.0.10

4 (A) The following data are supplied relating to two investment proposals, only one of which may be selected:

	Proposal A (Rs)	**Proposal B (Rs)**
Initial capital Expenditure	50,000	50,000
Cash Inflows		
Year 1	25,000	10,000
Year 2	20,000	10,000
Year 3	15,000	14,000
Year 4	10,000	26,000

The cost of capital is 10%. Evaluate which proposal should be accepted based on Net Present Valueand Profitability Index and why? (10)

(B) Firm anticipates Sales of Rs.10,00,000 with Variable cost of 60%. Total Cost is 8,00,000. 8% Debentures are issued of Rs.5,00,000. Tax Rate is 40%. Calculate all leverages of the firm. **(10)**

5. Write Short Notes on any four: - (20)

1. Certificate of Deposits
2. Cost of Preference shares
3. Objectives of Cash Management
4. Role and Functions of a Finance Manager
5. Differentiate between Net operating Income and Net Income.

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