F.Y.B.A.F. (Sem-I) March-2023

Q.P. Code:00000374

Financial Management (Introduction to Financial Management) - I

[Time:2.30 Hrs] `

Please check whether you have got the right question paper.

N.B:
1. All questions 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 **Match the Pair (Attempt any Eight)** [08]

Column A	**Column B**
i Equity Share Capital	(a) Compounding Factor
ii Debentures	(b) EBIT/EBT
iii Operating leverage	(c) Return for equity share holders
iv Financing leverage	(d) Discounting Factor
v Present Value	(e) Contribution
vi Future Value	(f) Own Funds
vii Earnings per share	(g) Traditional Approach of FM
viii Sales – Variable Cost	(h) Borrowed Funds
ix Profit Maximisation	(i) Modern Approach of FM
x Wealth Maximisation	(j) Contribution/EBIT

Q.1 B **State whether the following statements are True or False (Attempt any Seven)** [07]

1. Profit maximization is the sole objective of financial management.
2. The wealth of corporate owners is measured by the share price of the stock.
3. Time value of money explains that a unit of money received today is worth more than a unit received in future.
4. Tax rate and interest rate will not affect the operating leverage.
5. Financial leverage depends upon the fixed financial charges.
6. Preference shares are also known as 'Risk Capital' or 'Venture Capital'.
7. Debentures is an example of short-term source of finance.
8. WACC is the overall cost of capital of the firm.

9. Dividend to equity shareholders reduces tax liability of the company.
10. Cost of retained earnings is not considered for cost of capital.

Q.2 A Mr. Mohan invests ₹ 10,00,000 in the banking scheme which fetches return at 13% for the period of 5 years. How much amount will be received by him in the future? [08]

Q.2 B If Mr. Kishan requires ₹ 80,000 after 6 six years, how much should he invest today in a scheme which fetches interest at 8% [07]

OR

Q.2 C Mahendra Ltd. is planning to invest in a new project which requires the initial investment of ₹ 80,00,000. The project will fetch the returns as mentioned in the table below: [15]

Year	Amount (₹)
1	18,00,000
2	20,00,000
3	16,00,000
4	12,00,000
5	10,00,000
6	16,00,000
7	12,00,000
8	10,00,000

As a finance advisor of the company, suggest whether to accept or reject the project, assuming that the discounting factor is 11%.

Q.3 A Virat Ltd. provides you with the following details: [15]

Particulars	Amount (₹)
Sales	80,00,000
Variable Cost	50% of sales
Fixed Cost	20,00,000

It has borrowed ₹ 40,00,000 @ 10% p.a. and its equity share capital is of ₹ 10,00,000. The nominal value of an equity share is ₹ 10. The tax rate should be taken at 40%.

You are required to calculate:

a) Operating leverage; b) Financial leverage.; c) Operating Leverage; d) EPS and e) Return on investment

OR

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

Particulars	Red Ltd.	Maroon Ltd.
Variable Cost as a percentage of Sales	50%	60%
Interest	4,00,000	6,00,000
Operating leverage	3:2	2:1
Financial leverage	3:1	5:1
Tax rate	40%	40%

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

Q.4 A The following information is provided by the Board of the Piyush Ltd. [15]

Source of Funds	Amount
Equity Share Capital (FV ₹ 10)	10,00,000
Reserves and Surplus	4,00,000
14% Preference Share Capital (FV ₹ 100)	1,00,000
12% Loan funds	5,00,000
Total	20,00,000

1. Tax rate – 40%
2. Equity shares are traded in the market at ₹ 80 and expected dividend is ₹ 4 per share and expected growth rate is 10% p.a.

The company is planning to expand its business considering the new opportunities in the markets and for the said purpose it will require additional funds of ₹ 5,00,000. It can raise the same by issuing 12.5% Debentures of ₹ 100 each. However due to this decision, the market price of the share will fall to ₹ 64 and expected dividend will increase to ₹ 6.4 per share.

The requires your help to determine the

(i) Current Weighted Average Cost of Capital and

(ii) Calculate the revised Weighted Average Cost of Capital if expansion takes place.

OR

Q.4 B HMR Ltd. has furnished you with the following details you are required to ascertain weighted average cost of capital under book value weights and market value weights. [15]

Source of Capital	Book Value	Market Value	Cost of Capital
Equity Share	10,00,000	17,00,000	16%
Preference Share	4,00,000	4,50,000	14%
Retained Earnings	2,00,000	-	16%
Debt Capital	4,00,000	3,50,000	13%
Total	20,00,000	28,00,000	

Q.5. A. What are objectives of Financial Management? [08]

B. State the different long term funds instruments available for issuing capital. [07]

Q.5. B Short Notes (Any three) [15]

a) Commercial paper.
b) Doubling period rule.
c) Types of preference shares
d) Trading on equity
e) Cost of Debt