

Seat
No.

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आभास - 037

205

Financial Management
(4205)

P. Pages : 3

Time : Three Hours

Max. Marks : 60

Instructions to Candidates :

1. Do not write anything on question paper except Seat No.
2. Answersheet should be written with blue ink only. Graph or diagram should be drawn with the same pen being used for writing paper or black HB pencil.
3. Students should note, no supplement will be provided.
4. All questions carry equal marks.
5. Attempt **any three** question from Section - I & **any two** questions from Section II.

SECTION - I

1. Calculate the degree of operating leverage & financial leverage & combine leverage from following data. 12

Sales (1,00,000 units)	Rs. 2 per unit
variable cost per unit	0,70
Interest charges	4,000

Also give a comment on the effect of leverage on financial structure of company.

2. The capital structure of Kiran Ltd. is as under. 12

	(Rs)
Equity shares of Rs. 100 each	40,00,000
Retain Earning	20,00,000
8% preference shares	24,00,000
7% debentures	16,00,000
	1,00,00,000

The company earn 12% on capital. The tax rate applicable is 35%.

The company requires a sum of Rs. 50,00,000 for which following options are available to it.

- i) Issue of 40,000 equity shares at premium of Rs. 25 per share.
- ii) Issue of 9% preference shares.

iii) Issue of 8% debentures.

It is estimated the P/E ratios in case of equity share preference share & debenture would be 22, 20 & 18 respectively. Which of the financial alternatives would you recommend & why.

3. The present capital structure of company is as follows.

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	(Rs. lakhs)
Equity share (face value Rs. 10)	240
Reserve	360
11% preference share	120
14% Term loan	360
	1,080

Additional information are available :

company equity Beta 1.06

Yield on long term treasury bonds 10%

Market price of equity share Rs. 15

Market price of preference share Rs. 12

Corporate tax rate is 40%

Calculate WACC.

4. A company is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 & will have a life of 5 years & no salvage value. The company tax rate is 50%. & no investment allowance is allowed. This firm uses straight line method of depreciation. The estimated net income before depreciation & tax from the proposed investment proposal are as follows.

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Year	Net income before Depreciation & Tax (Rs.)
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following.

- 1) Pay back period.
- 2) Average rate of return.
- 3) Net present value @ 10% discount rate.
- 4) profitability index @ 10% discount rate.

Year	1	2	3	4	5
p. v. factor @ 10%	0.909	0.826	0.621	0.683	0.751

5. Pix Ltd. is considering the replacement of one of its moulding machines. The existing machine is in good operating condition, but is smaller than required if firm is to expand its operations. The old machine is 5 years old, & has remaining depreciable life of 10 years. The machine was originally purchased for Rs. 1,50,000 & its being depreciated at Rs. 10,000 per year for tax purposes.
- The new machine will cost Rs. 2,20,000 or Rs. 1,70,000 if exchanged with the existing machine. It will be depreciated on a straight line basis for 10 years with no salvage value. The management anticipates that with increased operation, there will be need for an additional net working capital of Rs. 30,000. The new machine will allow the company to expand current operations, there by increasing annual revenue by Rs. 60,000 & variable operating cost from Rs. 2,00,000 to Rs. 2,20,000.
- The company's tax rate is 35% & its cost of capital is 10% should the company replace its existing machine ? Assume that the loss on exchange of existing machine can be claimed as short-term capital loss in the current year itself. 12

SECTION - II

6. Explain the process of venture capital investment & features of venture capital. 12
7. Define the factor affecting on financial organisation & functional area of financial management. 12
8. Write short notes **any three**. 12
- a) Objective of financial management.
 - b) Over-capitalization.
 - c) Time value of money.
 - d) Secondary capital market.
 - e) Financial integration.
