**MARCH 2020** **SS 422/CAA02**

Time : Three hours Maximum : 100 marks

Answer any five questions choosing not more than THREE in each section.

(5 × 20 = 100)

SECTION – A

1. Explain the scope and importance of financial management.

2. Differentiate between capital structure and financial structure.

3. Explain various approaches for calculation of cost of equity.

4. Elaborate the efficient market theory. What are their shortcomings?

5. Make a comparison between Fundamental Analysis and Technical Analysis.

SECTION — B

6. How does a depreciation fund help the industrial concern as source of finance? Discuss.

7. Compute the market value of the firm, value of shares and the average cost of capital from the following information:

| | |
|---|---|
| Net operating income | Rs. 1,00,000 |
| Total investment | Rs. 5,00,000 |

Equity capitalization Rate:

If the firm uses no debt: 10%

If the firm uses Rs. 25,000 debentures: 11%

If the firm uses Rs. 4,00,000 debentures: 13%

Assume that Rs. 5,00,000 debentures can be raised at 6% rate of interest whereas Rs. 4,00,000 debentures can be raised at 7% rate of interest.

8. A Ltd. issues Rs. 10,00,000, 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.

B Ltd. issues Rs. 1,00,000, 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.

A Ltd. issues Rs. 1,00,000, 8% debentures at a discount of 5%. The tax rate is 60%, compute the cost of debt capital.

B Ltd. issues Rs. 10,00,000, 9% debentures at a premium of 10% The costs of floatation are 2%. The tax rate applicable is 50%. Compute the cost of debt-capital.

In all cases, we have computed the after-tax cost of debt as the firm saves on account of tax by using debt as a source of finance.

9. X Ltd. is having the following capital structure. Calculate financial leverage, operating leverage and combined leverage having two situations A and B and financial plans I and II respectively.

| | |
|---|---|
| Capacity | 1,500 units |
| Production | 1,200 units |
| Selling Price | Rs. 25 |
| Variable Cost | Rs. 18 |
| Fixed Cost Situation I | Rs. 1,400 |
| Situation II | Rs. 2,400 |

Capital structure:

| | Financial Plan | |
|---|---|---|
| | A | B |
| Equity | 80,000 | 60,000 |
| Debt | 20,000 | 40,000 |

10. Raja company earns a rate of 12% on its total investment of Rs. 6,00,000 in assets. It has 6,00,000 outstanding common shares at Rs. 10 per share. Discount rate of the firm is 10% and it has a policy of retaining 40% of the earnings. Determine the price of its share using Gordon's Model. What shall happen to the price of the share if the company has payout of 60% (or) 20%?

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