(6 pages)

NOVEMBER 2021 **65152/KDA1B**

Time : Three hours Maximum : 75 marks

PART A — ($10 \times 1 = 10$ marks)

Answer any TEN questions.

1. What do you mean by Financial forecasting?

2. What is profit maximization?

3. Write a short note on Customer's Credit

4. Define — Equity Shares

5. What do you mean by Book Building?

6. What is Capital Gearing?

7. Point out the features of optimum capital structure

8. What do you mean by Financial Leverage?

9. What is Cast of Capital?

10. Write a short note on Sensitivity Analysis

11. Define — Credit polices

12. Point out the objectives of Investment management

PART B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. List out the basic principles of financial decisions.

14. What are the importance of financial planning?

15. A Ltd. Company needs Rs 6,00,000 for construction of a new plant. The following three financial plans are feasible.

(a) The Company may issue 60,000 equity shares of Rs 10 each.

(b) The company may issue 30,000 equity shares of Rs 10 each and 3,000 preference shares of Rs 100 each bearing 8% coupon rate of interest.

(c) The company may issue 30,000 equity shares of Rs 10 each and 3,000 preference shares of Rs 100 each bearing 8% rate of dividend.

The Profit before interest and taxes (PBIT) is expected to be Rs 1,50,000. Corporate tax rate is 50%. Calculate the earnings per share under the three plans. Which plan would you recommend and why?

16. Discuss about Modern Quantitative Techniques of risk analysis.

17. From the following capital structure of a company calculate the overall cost of capital using

    (a) Book value weights and

    (b) Market value weights

Sources	Book Value (Rs.)	Market Value (Rs.)
Equity share Capital		
(Rs.10 Shares)	45,000	90,000
Retained Earnings	15,000	–
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after-tax cost of different sources of finance is as follows: Equity Share Capital:14%, Retained Earnings: 13%, Preference Share Capital 10%, Debentures: 5%

18. The cost of capital and the rate of return on investment of MRM Ltd. are 10% and 15% respectively. The company has one million equity share of Rs.10 each outstanding and earnings per share is Rs.5. Calculate the value of the firm in the following situations. Use Walter's model and comment on the results.

    (a) 100% retention

    (b) 50% retention

    (c) No retention

19. Bring out the techniques involved in accelerating cash inflows.

PART C — (4 × 10 = 40 marks)

Answer any FOUR questions.

20. What are the functions of financial management?

21. Define – Debentures. Sate its various kinds.

22. The following is the capital structure of a company

Equity shares of Rs.100 each	Rs. 20,00,000
Reserves and Surplus	8,00,000
9% Preference Shares	12,00,000
7% Debentures	10,00,000
Total capital	50,00,000

The Company earns 12% on its total capital. The company proposes to invest Rs.25 lakhs in an expansion program. The following alternatives are available.

Plan A: Issue of 20,000 equity shares at a premium of Rs.25

Plan B: Issue of 10 preference Shares

Plan C: Issues of 8% Debentures

The price earnings ratios are estimated as follows: Plan A -13, Plan B -12, Plan C–10.

Evaluate the financing plan and make your recommendation, assuming a corporate tax rate of 50%.

23. The Capital structure of a Bharat Ltd Consists of the following Securities

10% preference share Capital Rs. 1,00,000

Equity Share Capital (Rs.10 per Share) Rs.1,00,000

The amount of operating profits is Rs.60,000

The Company is in 50% tax bracket

You are required to calculate financial leverage of the company. What would be the new financial leverage if operating profit increase to Rs.90,000 and interpret your result.

24. Mr. Kumar Purchased shares in Saradha Textiles Ltd. at Rs.317 per share, in January 2000. she held them for five years and sold them in January 2006 for Rs.500 The Dividend per share received by himself was as under:

2001- Rs.15	2002- Rs.15	2003- Rs.18
2004- Rs.18	2005- Rs.20	

Calculate the Cost of Equity Capital.

25. What are the methods of estimating working capital requirements? Explain.

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