

**TIME : 3 HOURS**

(CONTD.....2)

12. a) Briefly explain the importance of cost of capital.

(OR)

- b) A firm is considering an expenditure of Rs. 75 lakhs for expanding its operations. The relevant information is as follows :
- Number of existing equity shares = 10 lakhs  
 Market value of existing share = Rs.100  
 Net earnings = Rs.100 lakhs
- Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs. 92 per share and the costs of new issue will be Rs. 2 per share.

13. a) Briefly explain the factors determining capital structure.

(OR)

- b) A Company has the following capital structure.

	Rs.
Equity share capital	1,00,000
10% Prof. share capital	1,00,000
8% Debentures	1,25,000

The present EBIT is Rs. 50,000. Calculate the financial leverage assuming that the company is in 50% tax bracket.

14. a) Explain the importance of Capital Budgeting.

(OR)

- b) Explain the Net Present Value method.

15. a) From the following information calculate,

(1) Re-order level      (2) Maximum level      3) Minimum level      (4) Average level

Normal usage: 100 units per week

Maximum usage: 150 units per week

Minimum usage: 50 units per week

Re-order quantity (EOQ) 500: units

Log in time: 5 to 7 weeks

(OR)

- b) Examine the needs of working capital.

### SECTION - C

(5 X 5 = 25 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. K4 & K5

16. a) List out the functions of Finance Manager.

(OR)

- b) Explain the scope of Financial Management.

(CONTD....3)

17. a) 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.
- i) 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.
- ii) 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.
- iii) 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.

(OR)

- b) Explain the concept of Weighted Average Cost of Capital
- 18.a) 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:
- (a) If the firm uses no debt 10%
- (b) If the firm uses Rs. 25,000 debentures 11%
- (c) 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.

(OR)

- b) Examine the factors affecting dividend policy.
19. a) Discuss the risk and uncertainty in capital budgeting
- (OR)
- b) A company has two alternative proposals. The details are as follows:

	Proposal I	Proposal II
	Automatic Machine	Ordinary Machine
Cost of the machine	Rs. 2,20,000	Rs. 60,000
Estimated life	5½ years	8 years
Estimated sales p.a.	Rs. 1,50,000	Rs. 1,50,000
Costs : Material	50,000	50,000
Labour	12,000	60,000
Variable Overheads	24,000	20,000

Compute the profitability of the proposals under the return on investment method.

(CONTD....4)

20. a) Prepare an estimate of working capital requirement from the following information of a trading concern.

Projected annual sales	Rs. 6,50,000
Percentage of net profit on sales	25%
Average credit period allowed to debtors	10 Weeks
Average credit period allowed by creditors	4 Weeks
Average stock holding in terms of sales requirements	8 Weeks
Allow 20% for contingencies.	

(OR)

- b) Explain the determinants of Working Capital

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