School of Finance and Commerce

Department of Finance and Commerce
Mid Term Examination

Exam Date: 29 Sep 2023
Time : 90 Minutes
Marks : 50

Sem V - H1UB503T - Business Finance

Your answer should be specific to the question asked
Draw neat labeled diagrams wherever necessary

1)	Discuss the objectives of financial management.	K2 (2)
2)	State how the Modern approach to corporate finance is an improvement over the Traditional approach.	K1 (3)
3)	Explain the concept of Financial Management. Also, explain major decisions that are required to be taken in Financial Management.	K2 (4)
4)	Explain the scope of financial management.	K2 (6)
5)	Rama company issues 120000 10% debentures of Rs. 10 each at a premium of 10%. The costs of floatation are 4%. The rate of tax applicable to the company is 55%. Compute the cost of debt capital.	K3 (6)
6)	Briefly explain various factors that have an impact on the Cost of Capital.	K3 (9)
7)	A Beta Ltd., iron steel reserves are being depleted and its costs of recovering a declining quantity of iron steel are rising each year. As an equal to it, the company earnings and dividends are declining at a rate of 12% p.a. If the previous year's dividend (DO) was Rs. 40 and the required rate of return is 15%. Advice the company regarding the expected current price of the equity share of the company.	K4 (8)
8)	ABC Ltd. needs Rs. 30,00,000 for the installation of a new factory. The new factory expects to yield annual earnings before interest and tax (EBIT) of Rs.5,00,000. In choosing a financial plan, ABC Ltd. has an objective of maximizing Earnings per Share (EPS). The company proposes to issue ordinary shares and raise debt of Rs.3,00,000 and Rs.10,00,000 of Rs. 15,00,000. The current market price per share is Rs. 250 and is expected to drop to Rs. 200 if the funds are borrowed in excess of Rs. 12,00,000. Funds can be raised at the following rates. • up to Rs. 3,00,000 at 8% • over Rs. 3,00,000 to Rs. 15,000,00 at 10% • over Rs. 15,00,000 at 15% Assuming a tax rate of 50% advise the company which alternative should be preferred by the company.	K4 (12)
	OR	
	Raj Ltd. is currently earning Rs. 2,00,000 and its share is selling at a market price of Rs. 160. The firm has 20,000 shares outstanding and has no debt. The earnings of the firm are expected to remain stable, and it has a payout ratio of 100%. Inspect the provided information to ascertain the firm's cost of equity. Also, if the firm earns a 15% rate of return on its investment opportunities, then ascertain the firm's cost of equity if the payout ratio is 60%.	K4 (12)