

- Instructions :** (1) This paper contains **FIVE** questions.
 (2) All questions are compulsory.
 (3) Question No.2, 3, 4 have internal options.
 (4) Figures in the right side in parenthesis indicate marks.

- Q:1** (i) The cost of various types of capital of Shiv co. ltd. Is given below along with target market proportions. Compute WACC and missing values from the following. (14)

Source of funds	Amount	Proportion in total capital structure	Cost of capital(%)
Debts	240000	(?)%	5.68
Preference share	80000	(?)%	9.33
Equity share (₹ 100 each)	400000	(?)%	13.30
Cost of retained earnings	80000	(?)%	13.00
Total	800000	(?)%	

- (ii) Compute cost of capital for the following:

- Rama company issues 120000 10% debentures of ₹ 10 each at a premium of 10%. The costs of floatation are 4%. The rate of tax applicable to the company is 55%. Complete the cost of debt capital.
 - Siva Ltd., issues 8000 8% debentures for ₹ 100 each at a discount of 5%. The commission payable to underwriters and brokers is ₹ 40000. The debentures are redeemable after 5 years Compute the after tax cost of debt assuming a tax rate of 60%.
- Q:2** 1. XYZ Ltd. issues 20,000, 8% preference shares of ₹ 100 each. Cost of issue is ₹ 2 per share. Calculate cost of preference share capital if these shares are issued (a) at par, (b) at a premium of 10% and (c) at a discount of 6%. (14)
- The current market price of the shares of A Ltd. is ₹ 95. The floatation costs are ₹ 5 per share amounts to ₹ 4.50 and is expected to grow at a rate of 7%. You are required to calculate the cost of equity share capital.

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3. A firm is considering an expenditure of ₹ 75 lakhs for expanding its operations. The relevant information is as given below. Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of ₹ 92 per share and the cost of new issue will be ₹ 2 per share.

Number of existing equity shares = 10 lakhs

Market value of existing share = ₹100

Net earnings = ₹100 lakhs

OR

Q:2 What do you mean by preference shares? Explain the features and methods of valuation of preference shares in detail. **(14)**

Q:3 Write a detailed note on decision tree. **(14)**

OR

Q:3 Explain the techniques of risk analysis in capital budgeting in detail. **(14)**

Q:4 Explain the terms 'dividend' and dividend policy. Discuss all the types of dividend in detail. **(14)**

OR

Q:4 State the essentials of a good dividend policy. Which are the two types of theories used in determining dividend policy? State the models included in both the types of theories and explain the M&M model in detail. **(14)**

Q:5 Define financial management. Explain its scope and importance in brief. **(14)**

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