DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

P.G.DIPLOMA IN FINANCIAL SERVICES & LEGISLATIONS

Academic Year: 2019-2020

I Semester - Repeat Examination (February, 2020)

Paper III - 1.1.3. Financial Management

Time: 2 ½ hours. **TOTAL MARKS: 70**

INSTRUCTIONS TO CANDIDATES

1. **The questions to be interpreted as given and no clarification can be sought from the invigilator.**
2. **No printed or handwritten materials / mobile phone / electronic devices will be allowed in the Exam hall.**
3. **To answer the numerical questions, "Financial formulae and PV Factor & PV Annuity Factor Tables", can be collected from the invigilator.**
4. **Scientific calculator is allowed.**
5. **Answers without Question numbers will not be marked.**
6. **Answers in illegible handwriting will not be taken into consideration.**

Answer the following Questions **(7 X 10 marks = 70)**

1. "Apart from making use of long term sources of finance, business organizations have to explore a wide range of short term sources of working capital financing". Elaborate the statement by discussing pros and cons of various such options.

2. "Some theorists believe that debt component in a capital structure helps in reducing overall cost of capital and also improves value of the firm, but beyond a point it will cause the opposite". Substantiate this statement with the help of a numerical example.

3. "As payment of dividend to equity shareholders is not compulsory, different companies chose different dividend policies as per their objectives and financial conditions". Briefly discuss various Dividend Policies that the companies can pursue.

4. "The amount of working capital required is determined not just by the approach a company follows but by various other factors also". Elaborate this statement by discussing in detail all such factors affecting working capital.

5. The Capital Structure of a company is as follows:

Particulars	Amount
Equity Share Capital	30,00,000
11% Debentures	20,00,000
13% Preference Capital	30,00,000

Assuming that the equity share is currently trading at Rs.50 and it is expected that it will pay dividend of Rs.3 per share which grow by 7% per year. The company is in 30% tax bracket.

Calculate the following

(a) Cost of Each component of Capital Structure

(b) Weighted Average Cost of Capital (WACC) with the existing Capital Structure

(c) WACC if the company issues 12% Debentures for another Rs.20,00,000

6. A project requires an investment of INR 1,00,000. Its cash flows of each year are depended on preceding year's cash flows. Its cost of capital is 10%. The project's life is 3 years and its expected cash flows with their respective probabilities are as follows:

Year 1		**Year 2**		**Year 3**	
CFAT	**Probability**	**CFAT**	**Probability**	**CFAT**	**Probability**
30,000	0.3	40,000	0.2	60,000	0.4
40,000	0.4	50,000	0.3	70,000	0.5
50,000	0.3	60,000	0.5	80,000	0.1

- What will be the ENPV of the project and is it advisable to invest on this project or not?
- What is the value of Standard Deviation of the Project?
- What is the value of its Coefficient of Variance?

7. Calculate operating, financial and combined leverage under the following situations when fixed costs are

a) Rs. 50,000
b) Rs. 1,00,000

For financial plans 1 and 2 respectively from the following information pertaining to the operation and capital structure of XYZ co.

Total Assets Rs. 3,00,000

Asset Turnover 2

Variable cost as 60% Percentage of sales

Financial plan

A. Debt 10% Rs. 10,00,000 and Equity Rs. 3,00,000
B. Debt 10% Rs. 3,00,000 and Equity Rs. 1,00,000