(c) A company issues ₹ 1,00,000, 10% preference shares of ₹ 100 each redeemable after 10 years at face value. Cost of issue is 10%. Estimate the cost of preference share. 5 (CO4)

Section—B

4. **Case Study :** 20 (CO5)

A firm has the following capital structure :

Sources of funds (%)	After tax cost (₹)	
Debt	30,00,000	4
Preference shares	10,00,000	8
Equity shares	20,00,000	11
Retained earnings	40,00,000	10
Total	1,00,00,000	

Calculate the weighted average cost of capital.

H **Roll No. ....**

MB–202

M. B. A. (SECOND SEMESTER)

MID SEMESTER

EXAMINATION, April, 2023

FINANCIAL MANAGEMENT

Time : 1½ Hours

Maximum Marks : 50

Note : (i) This question paper contains two Sections–Section A and Section B.

(ii) Both Sections are compulsory.

(iii) Answer any *two* sub-questions among (a), (b) and (c) in each main question of Section A. Each sub-question carries 10 marks.

(iv) Section B consisting of case study is compulsory. Section B is of 20 marks.

P. T. O.

Section—A

1. (a) Describe the nature and scope of financial management. 5 (CO1, CO2)

   (b) Discuss how an optimal combination of decisions relating to investment, financing and dividends will maximize the value of the firm to its shareholders. 5 (CO1, CO2)

   (c) B & Co. has 12% irredeemable debentures of ₹ 100 each for ₹ 1,00,000. The tax rate is 35%. Determine cost of debenture (pre-tax and post-tax both) assuming it is issued at (i) Par value, (ii) 12% premium and (iii) 10% discount. 5 (CO1, CO2)

2. (a) Explain how to determine the cost of equity capital in a growth firm and under earning capitalization method. 5 (CO3)

   (b) Compare and contrast the profit *vs.* wealth maximization concept. Which is a better policy to be followed by the companies ? 5 (CO3)

   (c) Given the time value of money as 10% (i.e. the discounting factor), you are required to find out the PV of the future cash inflows that will be received over the next 4 years : 5 (CO3)

   Yr. 1 – 1,000, Yr. 2 – 2,000, Yr. 3 – 3,000, Yr. 4 – 4,000. PVF at 10% from first to fourth year is as follows :

Year	PVR
1	0.909
2	0.826
3	0.751
4	0.683

3. (a) The Capital Ltd., wishes to calculate its cost of equity capital using CAPM approach. Company analysts found, that its risk free rate of return equals 12%, beta equals 1·7 and the return on market portfolio equals 14·5%. 5 (CO4)

   (b) Evaluate the firms cash flow and its impact on value maximization of the firm. 5 (CO4)