

ST. JOSEPH'S COLLEGE OF LAW
#18, Residency Road, Bengaluru – 560025

Internal Assessment Examinations – JULY 2024

Subject: Financial Management

Class: II BCOM LLB/ II BBA LLB

Max Marks: 10

Time: 1 Hr.

Instructions:

- Answer any one essay type question from Part A and any one short note question from Part B.
- Essay type question carries 7 marks and the short note question carries 3 marks.

Part A

7 x 1= 07

1. The following is the capital structure of the company:

Source of capital	Book	Market
Equity Shares at Rs. 100 each	10,00,000	16,00,000
9% Cumulative preference shares at Rs. 100	2,20,000	2,50,000
11% Debt	6,00,000	6,80,000
Retained Earnings	4,00,000	0
Total	22,20,000	25,30,000

The current market price of the company's share is Rs. 200. For the previous year, the company had paid an equity dividend of 15% and it is likely to grow at a rate of 5% p.a. corporate tax is 30% and personal income tax is 20%.

You are required to calculate:

- a. Cost of capital for each source of capital
- b. Weighted average cost of capital on the basis of book value weights.
- c. Weighted average cost of capital on the basis of market value weights.

Or

2. Compute the market value of the firm, value of shares and average cost of capital from the following information:

Net operating income Rs. 2,00,000

Total Investment Rs. 10,00,000

Equity capitalization rate:

- a. If the firm uses no debt - 10%
- b. If the firm uses 5% Rs. 4,00,000 debentures - 11%
- c. If the firm uses 6% Rs. 6,00,000 debentures - 13%

Calculate using traditional approach.

PART B

3 x 1 = 03

3. There are two firms, X and Y, which are exactly identical except X does not use any debt in its financing, while Y has Rs. 1,00,000 5% debt in its financing. Both the firms have an EBIT of Rs. 25,000 and an equity capitalisation rate of 10%. Assuming a corporate tax rate of 50%. Calculate the value of the firm using Modigliani and Miller approach.

Or

4. A company issues 1,000 7% preference shares of Rs. 100 each at a premium of 10% redeemable after five years at par. compute the cost of preference capital.