Financial Management & Economics		
Time Allowed : 1 hour 30 Min.	Test-2	Total Marks = 50 Marks

Q.1: Book value weights v/s Market Value Weights. [For calculation of WACC] **(4 Marks)**

Q.2: Explain "Stock Splits". **(4 Marks)**

Q.3: The following is the capital structure of a company: -

Particulars	**Book Value (₹)**	**Market Value (₹)**
Equity shares at ₹ 100 each	80,00,000	1,60,00,000
9% cumulative preference shares at ₹ 100 each	20,00,000	24,00,000
11% Debentures	60,00,000	66,00,000
Retained earnings	40,00,000	Nil

The current market price of the company's equity share is ₹ 200. For the last year, the company had paid equity dividend of ₹ 25 and its dividend is likely to grow 5% every year. The corporate tax rate is 30% and shareholders personal income tax rate is 20%.

Calculate: -

1. Cost of capital for each source of capital.
2. WACC on the basis of Book Value Weights
3. WACC on the basis of Market Value Weights. **(4Marks)**

Q.4: The net sales of A Limited is ₹ 30 crores. Earnings before interest and tax of the company as a percentage of net sales is 12%. The capital employed comprises ₹ 10 crores of equity, ₹ 2 crores of 13% cumulative preference share capital and 15% debentures of ₹ 6 crores. Income-tax rate is 40%.

(i) Calculate the return-on-equity for the company.
(ii) Calculate the operating leverage of the company given that combined leverage is 3. **(5 Marks)**

Q.5: Using the following data, **complete** the Balance Sheet of X Limited as at 31.03.2013: -

Gross profit - 25% of Sales	Cost of sales to Inventory - 10 times
Gross profit - ₹ 1,20,000	Average collection period - 5 days, assume 365 days in a year
Shareholders' equity - ₹ 20,000	Long-term debt - ?
Credit sales to total sales - 80%	Current ratio - 1.5
Total turnover to total assets - 4 times	Sundry creditors - ₹ 60,000

<u>Balance Sheet of X Limited as on 31.03.2013</u>

Liabilities	**₹**	**Assets**	**₹**
Sundry Creditors	?	Cash	?
Long-term Debt	?	Sundry Debtors	?
		Inventory	?
Share Capital	?	Fixed Assets	?

(8 Marks)

Q.6: XYZ Ltd. has the following book value capital structure: -

Equity Capital - ₹ 15 crores (in shares of ₹ 10 each fully paid up - at par)	Retained Earnings - ₹ 20 crores
11% Preference Capital - ₹ 1 crore (in shares of ₹ 100 each, fully paid up at par)	13.5% Debentures (of ₹ 100 each) - ₹ 10 crores 15% term Loans - ₹ 12.5 crores

The next expected dividend on equity share per share is ₹ 3.60; the dividend per share is expected to grow at the rate of 7%. The market price per share is ₹ 40. Preference stock, redeemable after ten years, is currently selling at ₹ 75 per share. Debentures, redeemable after six years, are selling at ₹ 80 per debenture. The Income tax rate for the company is 40%.

Required: -

(i) Calculate the WACC using: - **(a)** Book value proportions and **(b)** market value proportions

(ii) Compute the weighted marginal cost of capital of the company, if it raises ₹ 10 crores next year, given the **following information**: -

- **(a)** The amount will be raised by equity and debt in equal proportions.
- **(b)** The company expects to retain ₹ 1.5 crores earnings next year which is to be utilised for financing the new project.
- **(c)** The additional issue of equity shares will result in the net price per share being fixed at ₹ 32.

The debt capital raised by way of term loans will cost 15% for the first ₹ 2.5 crores and 16% for the next ₹2.5 crores. **(8Marks)**

Q.7: Explain Fiscal Policy and its objectives. **(4Marks)**

Q.8: Explain various types of externalities. **(4Marks)**

Q.9: Explain Stabilisation Function of correcting Market Failure. **(4Marks)**

Q.10: Explain Government Intervention in case of Demerit Goods. **(4Marks)**