**SHIVAJI COLLEGE, UNIVERSITY OF DELHI**

**DEPARTMENT OF COMMERCE**

**INTERNAL TEST-1 (Academic Year 2024-25 )**

**Date of Test : 09 Nov 2024**

**Name of the Course : BCOM (P)**

**Name of the Paper : FINANCIAL MANAGEMENT**

**Semester: III**

**Duration: 60 MINUTES**

**Maximum Marks: 18**

**Faculty Name: Ms. SONIKA SHARMA**

**Q.1.**  Determine the weighted average cost of capital using:

(i) Book value weights, and

(ii) Market value weights based on the following information:

Book Value Structure

Debentures (₹100 per Debenture) 8,00,000

Preference shares (₹100 per share) 2,00,000

Equity shares (₹10 per share) 10,00,000

Total 20,00,000

Recent market price of all these securities are:

Debentures ₹110 per debenture

Preference shares ₹120 per share

Equity shares ₹22 per share

External Financing opportunities are:

(i) ₹100 per debenture redeemable at par, 10-year maturity, 13% coupon rate, 4% flotation cost and sale price ₹100.

(ii) ₹100 per Preference share redeemable at par, 10-year maturity, 14% dividend rate, 5% flotation cost and sale price ₹100.

(iii) Equity shares ₹2 per share flotation costs and sale price ₹22.

Dividend expected on equity shares at the end of the year is ₹2 per share. Anticipated growth rate in dividend is 7%, the company pays all its earnings in the form of dividends. Corporate tax rate is 30%.  **6 Marks**

**Q.2.** ABC Ltd. provides the following details:

Installed Capacity: 1,50,000 Units

Actual production and sales: 1,00,000 Units

Selling price per unit: ₹1

Variable cost per unit: ₹0.50

Fixed cost: ₹38,000

Funds required: ₹1,00,000

**Capital Structure**

| Financial Plans | A | B | C |
| --- | --- | --- | --- |
| Equity shares of ₹100 each to be issued at 25% premium | 60% | 40% | 35% |
| 15% Debt | 40% | 60% | 50% |
| 10% Preference shares of ₹100 each | NIL | NIL | 15% |

Assume Income Tax rate is 30%.

(i) Degree of Operating Leverage, Financial Leverage and Combined Leverage for each plan.

**Q.3.** Explain the Traditional approach to Capital Structure.
 OR

**Q.** Star Ltd and Bucks Cafe. Ltd. are in the same risk class and are identical in all respects except that company Star uses debt while company Bucks Cafe does not use debt. The levered firm has ₹11,00,000 debentures carrying 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹20 lakhs. Both companies have same capitalisation rate of 15% on all equity shares. You are required to compute the value of Star Ltd and Bucks Cafe Ltd using Net Income approach.