

ST. JOSEPH'S COLLEGE OF LAW
#18, Residency Road, Bengaluru – 560025
Internal Assessment Examinations -JUNE 2023

Subject: FINANCIAL MANAGEMENT

Class:2 B.COM LLB/ 2 BBA LLB

Max Marks: 10

Time: 1 Hr

Instructions:

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

Part A

7x 1= 07

1. The capital structure of Sun Ltd. is as follows:

Equity share capital (2,00,000 share of Rs. 20 each)	40,00,000
6% Preference share capital	10,00,000
8% Debentures	30,00,000

The market price of equity share is Rs. 20 per share. The company is expected to pay dividend of Rs. 2 per share which will grow at 7%. The corporate tax rate is 35%.

- a) Calculate the weighted average cost of capital.
- b) Also calculate the new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10%, debentures. This would result in an increase in the expected dividend to Rs. 3 per share and leave the growth rate unchanged, but the market price of the share will come down to Rs. 15 per share.

Or

2. The Company's capital structure consists of following

Equity Share Capital	20,00,000
Retained earnings	10,00,000
9% Preference shares	12,00,000
7% Debentures	8,00,000
Total	50,00,000

The Company earns 12% on its Capital. The Income-tax rate is 50%. The company requires a sum of Rs. 25,00,000 to its expansion programme for which following alternatives are available to it.

- (i) Issue of 20,000 equity shares at premium of Rs. 25 per share
- (ii) Issue of 10% preference shares
- (iii) Issue of 8% Debentures

Which of the three-financing alternative would you recommend?

Part B

3 x1= 03

3. Explain the advantages and limitations of cost of capital.

Or

4. Explain MM Approach under capital structure.