

Time: 2 ½ Hours

Total Marks: 75

N.B. (1) All questions are compulsory with internal choice.

(2) Round off upto 2 decimals unless specified in the question.

**Q1A Match Column (Any 8)**

(08)

Column A	Column B
1. NPV	a. Selection of investment Proposal under constraints
2. Optimum Capital Structure	b. Added to the last year cash inflow
3. Close End Fund	c. Bad Debts
4. Hybrid Scheme	d. Principal Plus Interest
5. Relevance Approach	e. Source of Credit Information
6. Credit Bureau	f. Walter and Gordon
7. Maturity Value	g. Equity Shares and Debentures
8. Default cost	h. Stipulated Maturity Period
9. Scrap Value	i. Maximum EPS
10. Capital Rationing	j. Discounted cash inflow
	k. Opportunity Cost

**Q1B Multiple Choice Questions (Any 7)**

(07)

- The method which uses accrual accounting \_\_\_\_\_
  - Payback
  - ARR
  - NPV
  - IRR
- Part of income which is not distributed to shareholders \_\_\_\_\_
  - Profit
  - Loss
  - Dividend
  - Retained Profit
- IF EBIT is more than financial breakeven point then \_\_\_\_\_
  - EPS will be Positive
  - EPS will be Negative
  - No effect on EPS
  - Cash of debt increases
- \_\_\_\_\_ is not an example of modern method of capital budgeting.
  - Net Present Value
  - Internal rate of return
  - Accounting rate of return
  - Profitability Index
- \_\_\_\_\_ assumes to reinvest only positive cash inflows at the firm cost of Capital.
  - MIRR
  - IRR
  - NPV
  - Discounted Payback

6. The irrelevance theory of dividend was supported by \_\_\_\_\_.
  - a. Walter
  - b. Modigliani and Miller
  - c. Gordon
  - d. Fayol
7. The difference between NAV and re purchase price is \_\_\_\_\_.
  - a. Entry Load
  - b. Exit Load
  - c. Expenses
  - d. Dividend Stripping
8. Wealth maximisation means \_\_\_\_\_.
  - a. Maximisation of net worth
  - b. NPV
  - c. IRR
  - d. Profit
9. A \_\_\_\_\_ is a graphical depiction of a decision and every potential outcome of making that decision.
  - a. Sensitivity analysis
  - b. Scenario analysis
  - c. Breakeven analysis
  - d. Decision tree analysis
10. Returns on bonds are termed as \_\_\_\_\_.
  - a. Interest
  - b. Dividend
  - c. Premium
  - d. Bonus

**Q2A** A company is considering the two mutually exclusive projects. The finance director considers that the project with higher NPV should be chosen: whereas the managing director thinks that one with higher rate of return should be considered. Both the projects have got a useful life of 5 years and the cost of capital is 10 %. The initial outlay is Rs 20 lakhs.

Year	Project X (in Rs) Cash Inflow	Project Y (in Rs) Cash Inflow	PV Factor @10%
1	3,50,000	6,00,000	0.91
2	8,00,000	8,00,000	0.83
3	9,00,000	7,00,000	0.75
4	7,50,000	1,40,000	0.68
5	2,00,000	1,30,000	0.62

You are required to evaluate the projects and explain the inconsistency, if any in the ranking of the projects (15)

1. Pay Back Period
2. ARR (Based on Original Investments)
3. NPV

OR

**Q2B** X Ltd is consider in a project with the following cash flow:

Year	Purchase of Plant	Running Cost	Savings
0	80,000	-	-
1		30,000	80,000
2		35,000	90,000



The cost of capital is 8%. Measure the sensitivity of the project to changes in the level of running cost, savings and plant cost. Which factor is the most sensitive?

The present values of Rs at 8% for year 1 and year 2 are respectively 0.9259 and 0.8573.

**Q2C** Total available fund for capital expenditure in a year is estimated at Rs. 2 lakhs. The mutually exclusive investment proposals along with profitability index are given below (07)

Project	A	B	C	D	E	F	G
Initial Outlay (Rs '000)	25	35	25	80	20	30	20
PI	0.94	1.16	1.14	1.25	1.05	1.09	1.19

Which of the above project should be accepted?

**Q3A** One-up Ltd. Has equity share capital of ₹50,00,000 dividends into shares of ₹100 each. It wishes to raise further ₹30,00,000 for expansion-cum-modernization scheme. The company plans the following alternatives:

- By issuing equity shares only.
- ₹10,00,000 by issuing equity shares and ₹20,00,000 through debentures or term loan @10% per annum.
- By raising term loan only at 10 % per annum.
- ₹10,00,000 by using equity shares and ₹20,00,000 by issuing 8% Preferences Shares.

They are required to suggest the best alternative giving your comment assuming that the estimated are interest and taxes (EBT) after expansion is ₹15,00,000 and corporate rate of tax is 50 %

(15)

**OR**

**Q3B** Details regarding three Companies are given below:

(15)

<u>A Ltd.</u>	<u>B Ltd.</u>	<u>C Ltd.</u>
R = 8%	R = 10%	R = 15%
Ke = 10%	Ke = 10%	Ke = 10%
E = ₹ 10	E = ₹ 10	E = ₹ 10

By Using Walter's Model, you are required to calculate the value of an equity share of these companies when dividend payout ratio is:

- 30%
- 40%
- 10%
- 90%

**Q4A** Radiance Garments Ltd. Manufactures readymade garments and sells them on credit basis through a network of dealers. Its present sale is 6 lakhs per annum with 20 days' credit period. The company is contemplating an increase in the credit period with a view to increasing sales. Present variable costs are 70% of sales and the total fixed costs 80000 per annum. The company expects pre-tax return investment @25%. Some other details are given as under:

Proposed Credit Policy	Average Collection Period (days)	Expected Annual Sales (Lakh)
I	40	7
II	50	7.4
III	60	7.5
IV	70	7.6



Required: Which credit policy should the company adopt? Present Your answer in a tabular form. Assume 360 days a year. Calculations should be made upto two digits after decimal. (15)

OR

Q4B Sundar Raman Mutual Fund's Sunrise Mutual fund (A growth fund) held following securities as on 31<sup>st</sup> March, 2024: (08)

Company Name	No. of shares held	Marker values as on 31/03/2018
A Ltd.	25,000	15
B Ltd.	10,000	23
C Ltd.	5,000	68
D Ltd.	17,500	13
E Ltd.	27,000	10
F Ltd.	30,000	12
G Ltd.	4,000	98

Outstanding liability = ₹ 1, 52,500.

Cash = ₹ 1, 50,000

Other current assets = ₹ 2, 50,000. Compute the Net Asset Value per unit if current outstanding units are 10,000.

Q4C Calculate the value of the Bond Given: (07)

Particulars	Bond A	Bond B
Par Value	Rs 1,000	Rs 1,000
Coupon Rate	13%	11%
Maturity Period	3 years	7 years
Required Rate of return on Bond	10%	14%

Recommend which Bond should be purchased

Q5 A Explain the functions of strategic Financial Management? (08)

B What are merits and demerits of NPV? (07)

Q5C Write Short Notes (Any 3) (15)

- Capital Rationing
- Net Income Approach
- Walter Model
- Net Asset Value
- Types of Return.

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