103
(07)

## Q.P. Code: 23800

**Max. Marks: 75** **Time: 2Hrs.30Min.**

**Instructions: (a) All questions are compulsory subject to internal choice.**
**(b) Figures to the right indicate full marks.**

Q.1 **Answer any Eight from the following:** **[08]**

A. Match the following

| A | B |
|---|---|
| Creditors | Net worth |
| Owners fund | Unsecured loan |
| Fixed deposits | Current liability |
| Treasury bill | Short term source of finance |
| Equity share capital | Long term source of finance |
| Ploughing back of profits | More the returns |
| More the risk | Less the returns |
| Less the risk | Internal source of financing |
| Equity | CA-CL |
| Working capital | Cheapest source of finance |
| Dividend policy | Gordon |

B **State whether the following statements are true or false(Answer any Seven):** **[07]**

a. Profit maximisation is concerned with those acts which are to maximize wealth.
b. Treasury bill source of finance is long term source of finance
c. GDR and ADR are denominated in Euros
d. Overcapitalisation does have adverse effects
e. The ratio of debt and equity must be 1:1
f. Debt is cheapest source of finance
g. NPV does not considers time value of money
h. A project with NPV > 1 is rejected
i. Market value of shares of under- capitalised company rises.
j Cost of equity is zero

Q.2A **A company has an investment opportunity costing Rs.70,000 with the following expected net cash flow** **[15]**

| Year | Net cash inflows (Rs.) |
|---|---|
| 1 | 7000 |
| 2 | 7000 |
| 3 | 7000 |
| 4 | 7000 |
| 5 | 7000 |
| 6 | 8000 |
| 7 | 10000 |
| 8 | 15000 |
| 9 | 10000 |
| 10 | 4000 |

**Using 12% as cost of capital determine the following.**

1) **Payback period and payback profitability**
2) **NPV at 12%**

**Q.P. Code: 23800**

OR

B. **Avani products Ltd. Wants to introduce a new product with estimated life of five years. The manufacturing equipment will cost Rs.2, 50,000 with scrap value of Rs.25, 000 at the end of five years. The working capital requirement is Rs. 30,000 which will be released after five years. Cost of capital is 10%.** **[15]**

| Year | Cash inflow(Rs.) (Profit before tax) |
|---|---|
| 1 | 1,25,000 |
| 2 | 1,50,000 |
| 3 | 1,87,500 |
| 4 | 1,80,000 |
| 5 | 1,12,500 |

**The depreciation to be charged under Straight line method. Tax applicable @40%. Evaluate proposal under NPV method, Payback period method and ARR.**

Q.3

A. X Ltd. has the following capital structure as on 31st March,2017 **[15]**

| | Rs. |
|---|---|
| 14% debentures | 300000 |
| 12% preference shares | 200000 |
| Equity shares of Rs.100 each | 500000 |
| Total | 1000000 |

The equity shares of the company are quoted at Rs.110 and the company is expected to declare a dividend of Rs.10 per share for the year. Growth rate is 8% forever.

Required

a) Calculate the cost of capital when tax is 50%
b) Calculate revised WACC if the dividend increases from Rs.9 to Rs. 10 per share and the market price decreases from Rs.110 to Rs.105 per share.Company raises additional Rs.5,00,000 by loan at 10% interest.

OR

B. **Following are the details regarding capital structure of a company.** **[15]**

You are requested to determine the Weighed average cost of capital using Book value and Market value.

Tax rate is 50%.Company expects dividend of Rs.2 per share and the market value is Rs.18 per share growth is 5% forever.

| Types of capital | Book value | Market value | Specific cost |
|---|---|---|---|
| Debentures | 40,000 | 38,000 | 5% |
| Preference capital | 10,000 | 11,000 | 8% |
| Equity capital | 60,000 | 1,20,000 | - 13 |
| Retained earnings | 20,000 | ----------- | 9% |

**[15]**

**Q.P. Code: 23800**

Q.4

A. M/S Naysha Ltd. has the following capital structure.

| Particulars | Rs. |
|---|---|
| Equity share capital(Rs.10 each) | 40,00,000 |
| 12% Preference share capital (Rs.100 each) | 20,00,000 |
| 14% Debentures | 60,00,000 |

It is expected that company will earn pre tax profits of Rs.40,00,000 (tax rate 50%) .The company wishes to raise further fund of Rs.30, 00,000 and has the following options.

a) Issue of new debentures and preference shares in equal proportion.
b) Issue of preference shares to the extent of 20% balance by way of debentures.
c) Issue of new debentures carrying 10% interest.

OR

B. A Lt d. Has Rs.5,00,000 allocated for capital budgeting process. The following proposals and associated profitability index have been determined. [15]

| Project | Amount | Profitability Index |
|---|---|---|
| 1 | 150000 | 1.22 |
| 2 | 75000 | 0.95 |
| 3 | 175000 | 1.20 |
| 4 | 225000 | 1.18 |
| 5 | 100000 | 1.20 |
| 6 | 200000 | 1.05 |

Which of the following should be undertaken in order to maximise NPV, assume that the projects are a) indivisible b) divisible.

Q.5

A) Discuss the qualities of an finance manager [08]

B) State the objectives of financial management. [07]

OR

Write short notes on (any three) [15]

A) Dividend policy
B) MM approach
C) Seed financing
D) Foreign capital
E) ARR

***************