

DURATION: 2 ½ HOURS

D72110OFMI

MARKS: 75

NOTE:

- All questions are compulsory.
- Figures to the right indicate full marks.
- All questions carry equal marks.

Q.1 A Fill in the Blanks: (8)

1. A type of preference shares which can be converted into Equity Shares.  
(a) Participating Preference Shares (b) Cumulative Preference Shares  
(c) Secured Preference Shares (d) Convertible Preference Shares
2. Dividend declared between two Annual General Meetings (AGM's) is termed as \_\_\_\_\_.  
(a) Stock Dividend (b) Cash Dividend (c) Interim Dividend (d) Liquidation Dividend
3. \_\_\_\_\_ method uses trial and error.  
(a) Net present value (b) Internal rate of return (c) Profitability index (d) Pay Back
4. \_\_\_\_\_ is a method based on time value of money.  
(a) Net terminal value method (b) Discounted payback period  
(c) Internal rate of return (d) All of the above
5. Dividend paid to stockholders are:  
(a) Tax deductible to the firm (b) Tax Free  
(c) Not Tax deductible to the firm (d) Double Taxation
6. The cost of \_\_\_\_\_ capital is the highest.  
(a) Equity (b) Preference (c) Debt (d) International
7. \_\_\_\_\_ refers to the mix of a company's debt and equity.  
(a) Capital Structure (b) Capital Budgeting (c) Capital Stock (d) Capital Asset
8. The term capital employed includes \_\_\_\_\_.  
(a) Equity shares (b) Preference shares (c) Loans (d) All of the above

B True or False (7)

1. EVA is not mandatorily reported in Annual Reports in India.
2. Default means honouring the investment on its due date.
3. The payback period considers time value of money.
4. financial break-even point is where there is only profit no loss.
5. Investors are risk averse.
6. Internal Rate of Return is very simple to calculate.
7. Capital not bearing risk relates to equity share Capital.

Q.2 A Calculate EVA from the following data for the year ended 31st March (8)

Average Debt	Rs. 25 Crores
Average Equity	Rs. 2,500 Crores
Cost of debt	8%
Cost of Equity	15%
Profit after tax	Rs. 12 Crores
Interest	Rs. 4 Crores

Q.2 B Sanjana has invested Rs. 25,000 in a scheme @ 12% p.a. compounded quarterly. Find out what will the amount become at the end of two years.

**OR**

**Q.2 C** Calculate Economic Value Added from the following information (8)

EBIT	35% of Capital Employed
Tax	25%
Capital Employed	Rs. 100 Lakhs
Debt Equity Ratio	1:3
Cost of Debt (After Tax)	9%
Cost of Equity	12%

**Q.2 D** Treasury bonds carry 7% interest. Beta factor for the company may be taken at 1.15. The long run market rate of return taken at 15.5 Calculate Cost Of equity by CAPM (7)

**Q.3** A company can make either of two investments at period to. Assuming a required rate of return of 10%, determine for each project:

- (a) the pay back period, (b) the discounted pay back period,  
 (c) the profitability index, and You may assume straight line depreciation (15)

Particulars	P	Q
Cost of investment (Rs.)	2,00,000	2,80,000
Expected life (no salvage)	5 years	5 years
Projected net income (after depreciation, interest and taxes)		
Year	Rs.	Rs.
1	Rs. 25,000	Rs. 10,000
2	Rs. 15,000	Rs. 12,000
3	Rs. 10,000	Rs. 18,000
4	Nil	Rs. 25,000
5	Rs. 12,000	Rs. 8,000

**OR**

**Q.3 C** A company is considering two mutually exclusive projects. Estimated life 5 years and cost of capital is 8%. The initial cost outlay of X is Rs. 40,00,000

Year	Project X
1	7,00,000
2	16,00,000
3	18,00,000
4	15,00,000
5	4,00,000

You are required to evaluate the project using NPV (8)

**Q.3 D** Shailesh Company Ltd. has invested in a machine at cost of Rs. 10,00,000. (7)  
 Estimated life years, tax rate 50%, Depreciation on SLM. Calculate Payback Period

Year	Profit before depreciation
1	4,00,000
2	6,00,000
3	4,00,000
4	5,00,000
5	4,50,000

**Q.4** Following are the details regarding three companies P Ltd., Q Ltd., and R Ltd.:

Particulars	P Ltd.	Q Ltd.	R Ltd.
Internal rate of return	15%	5%	10%
Cost of Equity	10%	10%	10%
Earnings per share	Rs.8	Rs.8	Rs.8

calculate the value of a equity share for each of company applying Walter's model when dividend payout ratio (D/P ratio) is (i) 50% (ii) 75%. (15)

**OR**

**Q.4** A From the following data, calculate the MARKET PRICE of a share of LSK Ltd., under (i) Walter's Formula; and (ii) Dividend growth model.

EPS = Rs. 150 DPS = Rs.90  $K_e = 20\%$   $r = 30\%$  Retention ratio = 55% (8)

**Q.4** Calculate overall cost of capital

Source	Book Value
Equity shares of Rs. 10 each	4,50,000
Retained Earnings	1,50,000
Preference Share Capital	1,00,000
Debentures	3,00,000

The after tax cost of different sources of finance are Equity Share Capital 4%, Retained Earnings 13%, Preference Shares 10% and Debentures. 5% (7)

**Q.5** A. Classify The Sources of Finance according to Ownership (8)

B. Distinguish Between Lease Finance & Hire Purchase Finance (7)

**OR**

**Q.5** Short Note (any 3) (15)

1. Public Finance
2. Right Issue of Shares
3. Types of Risk
4. Advantage of Pay Back Period
5. Commercial Paper