(2½ Hours) **[Total Marks: 75]**

Instructions: All questions are compulsory.

Q1A] Fill in the blank [Any 8] (08)

1] ---------------- determines the number of years required to recover initial investment outlay.

2] Risk and ---------------- always goes hand in hand

3] Capital rationing helps in --------------- shareholders wealth.

4] ----------------- costs are irrelevant in determining the cash flows of a project.

5] In case sales are subject to wide fluctuations a firm should employ more -------------

6] The type of expenses that can be charged to a fund and the limit is decided by -----------------

7] Bonds which has an issue price equal to its face value is known as issued at ---------------

8] Dividend declared between two Annual General Meetings is termed as ----------------

9] Shareholder wealth in a firm is represented by ----------- of firms common stock.

10] An improper analysis leads to ------------- of project.

Q1B] State Whether following statements are true or false . [Any 7] (07)

1] Default Costs are caused due to failure of customers to pay on time .

2] IRR method ignores the time value of money.

3] Overcapitalization does not have any adverse effects.

4] Dividends paid to the shareholders are always reinvested by all the shareholders further, to get higher returns.

5] An aging scheduled is an accounting table that shows the relationship between a company bills and invoices and their respective due date .

6] Units of Mutual Fund have a similar connotation as shares of a company

7] Unsystematic risk reduces with the diversification of investment.

8] Bad debts are not accounted for under recourse factoring.

9] Corporate Strategy is hierarchically the highest strategic plan of the organisation.

10] When interest rate rise bond price also increases .

Q2A] Preet Industries Ltd .has annual credit sales of Rs 24. Lakhs. Mr. Raza Patel,the newly appointed Sales Manager has ambitious plan to increase the sales and also the profitability of the company . [10]

At present the sales price per unit is Rs. 20 and present age of account Receivable is a one month and variable cost is @50% and net profit is @20%.

Mr. Patel has put forward the following two proposals before the management.

Proposals I :- increase the credit period to debtors from one month to 3 months. The expected sales will be Rs 30 lakhs .chances of bad debts @2% of the credit sales .

Proposals :- Reduced the selling price by 5% per unit. The expected sales would be Rs. 28.50 lakhs. All cash sales no credit sales .

Assuming that the cost of funds is 12 % and other conditions remaining same which would you recommend?

Q2B] Calculate the market price of share as per Walter model [5]

Retention Ratio	50%
IRR	20%
Cost of Capital	16%
Dividend per share	Rs 3
Earning Per share	Rs 5

OR

Q2C] Arshi Rukshar company has currently, an ordinary share capital of Rs 25 lakhs, consisting of 25000 shares of Rs.100 each . the Management is planning to raise another Rs 20 lakhs to finance major programme of expansion through one of four possible financing the plans are. [15]

I] Entirely through ordinary shares .

II] Rs.10 lakhs through ordinary shares and Rs. 10 lakhs through long term borrowing at 8% interest per annum.

III] Rs.5 lakhs through ordinary shares and Rs. 15 lakhs through long term borrowing at 9% interest per annum.

IV] Rs.10 lakhs through ordinary shares and Rs. 10 lakhs through Preference shares with 5% dividend.

The company expected earning before interest and taxes [EBIT] will be Rs 8 lakhs .Assuming corporate tax of 50 %. Determining EPS in each alternative and comment on the financial implication of Financial Leverages.

Q3A] Based on the following information, determine the NAV of a regular income schemes on per unit basis. [10]

	Rs. In lakhs
Listed Shares at costs[ex dividend]	20
Cash in hand	1.23
Bonds and debentures at costs	4.30
Of these , bonds not listed and quoted	1.00
Other fixed interest securities at cost	4.50
Dividend Accrued	0.80
Amount payable on share	6.32
Expenditure Accrued	0.75
No. of units (Rs. 10 Each)	2.00
Current realizable value of fixed income securities of face value Rs 100	106.5
The listed share were purchased when index was	1000
Present index	2300
Value of listed bonds and debenture at NAV date	8

There has been a diminution of 20% in unlisted bonds and debentures .other fixed interest securities are at cost.

Q3B] A Bond of Rs 1000 has a coupon rate of 8%per annum and Maturity period of 3 years. The bond is currently selling at Rs 910 .what is the yield to maturity in the investment of this bond [5]

OR

Q3] Hero is considering a purchase a machine X and Y are the 2 machine available from the following information, suggested which of the two is recommended under

a] Payback period b] ARR c] NPV d] Profitability Index [15]

	Machine X	Machine Y
Cost	400000	560000
Life	5 years	7 years
Profit After Tax		
Year 1	12000	10000
2	12000	40000
3	42000	40000
4	24000	20000
5	12000	10000
6	----	10000
7	----	10000

I] profit is calculated after deducting straight line depreciation and tax

II] The Cost of Capital is 10 % III] PVIF factor at 10%.

IV] Depreciation for both the machine X and Y Rs 80000 per annum respectively

Q4A] Preet ltd has Rs 500000 allocated for capital budgeting purposes. The following proposals and associated profitability index have been determined . [8]

Project	Outflow	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 above investment should be undertaken in order to maximize NPV assume that the project are [a] indivisible [b] divisible

Q4B] Calculate the duration of Bond from the following details. [7]

Face Value = Rs 1000

Coupon Rate (payable Annually) =13 %

Years to Maturity = 5 years

Redemption value = Rs1000

Current Market Price = Rs 1036

Yield To Maturity = 12%

OR

Q4C] Raza Ltd. has capital of Rs 100000 in equity shares of Rs 10 Each .the shares are currently quoted at par. The company proposes declaration of dividend of Rs 10 per share at the end of financial year. The capitalization rate for the same class of company is 12% [8]

What will be market price of the share at the end of year if.

I] Dividend is not declared?

II] Dividend is declared?

Assuming that the company pays the dividend and has net profits of Rs 500,000 and makes new investment of Rs 10,00,000 during the project , how many new shares must be issued ?

Use M.M. Model

Q4D] Construct the decision tree for the following problem and choose the best alternative for the purchase of a machine. [7]

Machine	Poor	Fair	Good
M1	5	7	11
M2	-3	10	15
M3	-10	5	20

Market being poor, fair and good at a chance 20%, 50% and 30% respectively.

Q5A] Explain in brief Responsibility of a Chief Financial Officer [8]

B] Explain the Relevance of capital rationing in capital budgeting of a firm . [7]

Q5C] Write a short note [Any 3] [15]

I] EVA

II] Ageing schedule.

III] Modigliani- Miller Approach

IV] EBIT–EPS Analysis.

V] 5Cs of credit.