

Duration :2.30 hours

Marks :75

N.B.: 1. All Questions are compulsory.

2. Working Notes should form part of answer.

Q1.A. State whether following statement True or False (Any 8)

(08)

1. Gross Profit and Net Profit both gives the same amount of profit.
2. Capitalization is generally found to be of three types : Normal, Over and Under.
3. The interest on debentures is a tax deductive expenditure.
4. Capital assets are subject to depreciation.
5. IRR method ignores the time value of money.
6. At the point of IRR; NPV is Positive.
7. EBIT is also known operating profits.
8. Hybrid Dividend Policy is a combination between the residual and stable dividend policy.
9. The unit capital of a fund is the number of units issued X NAV of the fund.
10. Cash sales results in account receivable.

Q1.B. Match the Column (Any 7)

(07)

| Column A | Column B |
|------------------------------|---|
| 1. Cash Profit | a. Shareholder funds |
| 2. Debt Equity Ratio | b. Creditors |
| 3. Retained Earnings | c. Face Value = Issue Price |
| 4. Lenders | d. Issues Price > Face value |
| 5. Shareholders | e. Net Asset Value |
| 6. Dividend Relevance Theory | f. Sell |
| 7. Entry Load | g. Profit after Tax + Equity |
| 8. NAV | h. Leverage ratio |
| 9. Exit Entry | i. Buy |
| 10. Issues at Par | j. Owners |
| | k. Value of a firm is affected by its dividend policy |

Q2.A. AB Ltd is considering the purchase of a new machine for the immediate expansion programme. There are three types of machines in the market for this purpose.

(15)

Their details are as follows:

| Particulars | Machine A | Machine B | Machine C |
|---|-----------|-----------|-----------|
| Cost of Machine | 35,000 | 25,000 | 18,000 |
| Estimated saving in scrap per year | 800 | 1500 | 500 |
| Estimated savings in direct wags per year | 5,500 | 12,000 | 4,500 |
| Additional Cost of Indirect Materials per annum | - | 400 | - |
| Expected Saving in direct materials per annum | 100 | - | 250 |
| Additional Cost of Maintenance per year | 750 | 550 | 500 |
| Additional Cost of Supervision | - | 800 | - |
| Estimated life of Machine | 10 | 5 | 5 |

You are required to advise the management which type of machine should be purchased on the basis of payback period ? Tax Rate= 40 %

OR

Q2.B. T Ltd is considering the following projects: (8)

| Project | Outlay (Rs) | NPV |
|---------|-------------|----------|
| A | 7,00,000 | 2,50,000 |
| B | 8,00,000 | 3,50,000 |
| C | 9,00,000 | 4,00,000 |
| D | 10,00,000 | 4,50,000 |
| E | 15,00,000 | 5,00,000 |

Capital Budget constraint Rs 25,00,000. Choose the feasible combination that has the highest NPV. Give Reason.

Q2.C. X Ltd is considering a project with the following Cash flow: (7)

| Year | Purchase of Plant (Rs) | Running Cost (Rs) | Savings (Rs) |
|------|------------------------|-------------------|--------------|
| 0 | 1,40,000 | - | |
| 1 | - | 40,000 | 1,20,000 |
| 2 | - | 50,000 | 1,40,000 |

The Cost of Capital is 8%. Measure the sensitivity of the project to change in the level of running cost, savings and plant cost. Which factor is the most sensitive? The present value of Rs 1 at 8% for year 1 and Year 2 are respectively 0.9259 and 0.8573

Q3.A AB Ltd has an EBIT of Rs 3 lakhs. The company has 8% debentures of Rs 7 lakhs (15) Rs 7 lakhs. Presuming the overall capitalization rate as 10 %, compute the present total value of the company and equity capitalization rate. The company decides to raise a sum of Rs 2 lakhs through debt at 8% and use the proceeds to pay off the equity shareholders. Compute the proposed total value of the company and also the proposed equity capitalization rate. Use Net Operating Income Approach

OR

Q3.B. Calculate the duration of Bond from the following details. (8)

Face Value = Rs 1000

Coupon Rate = 10 % P.a

Years to Maturity = 5 Years

Redemption Value = Rs 1,000

Current Market Price = Rs 1036

Yield to maturity= 12 %

Q3.C. From the following data calculate the market price of a share of SK Ltd under (7)

i) Walter Formula ii) Gordon model

EPS =Rs 12

DPS = Rs 3

Cost of Capital = 18 %

Internal rate of Return on investment = 22%

Retention Ratio = 75%

Q4.A. Moon Mutual fund provides you with the following data related to unbalanced (15) mutual fund scheme. You are required to compute Net asset Value on per unit basis as on 30th Sept 2022.

| Particulars | Rs |
|------------------------------|--------|
| Managers Salary | 20,000 |
| Operational Expenses | 80,000 |
| Amount Payable on Shares | 25,000 |
| Bonds and debentures at cost | 60,000 |
| Interest Income | 32,000 |
| Listed securities at cost | 93,000 |
| Dividend Income | 10,000 |
| Cash in Hand | 24,000 |

Other Information :

- Value of listed bonds and debentures is appreciated by 15 % cost while unlisted display a downfall of 5% from cost.
- All the listed securities were purchased when market index was 9500 and currently it is 9,300.
- Out of total bonds quoted above 30 % of them are unlisted.
- No of outstanding units is 35,000.

Also calculate the amount receivable by an investor who wishes to sell 125 units at NAV as on 30th September with 5 % exit load.

OR

Q4.B. The present cash discount of AB Company is 1%. Its annual sales are Rs.80 lakhs, (15) its average collection period is 20 days. Its variable cost to sales is 0.85 and fixed cost Rs.8,00,000 respectively and its cost of capital is 10 per cent. The proportion of sales on which customers currently take discount is 0.5. AB company is considering relaxing its discount terms to 2%. Such relaxation is expected to increase sales by Rs.5 lakhs, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.80. What will be the effect of relaxing the discount policy on company's profit? Take year as 360 days.

Q5.A. State the objectives of finance management ? (08)

Q5.B. Discuss the phases of capital budgeting (07)

OR

Q5.C. Write note on the following (Any 3) (15)

- Capital Rationing
- Net Income Approach
- Types of Dividend Policies
- Net Asset Value
- Collection Cost
