(2½ Hours) [ **Total Marks : 75**

**N. B. :** (1) **All** questions **are** compulsory.
(2) Figures on the **right** indicate **full marks** to a question / sub-question whereas figures on the **left** indicate question / sub-question **numbers**.
(3) **Working notes** and **assumption**s shall form part of your **answer**.
(4) Proper **presentation** and **neatness** is essential.
(5) Use of **only** simple calculator is permitted.

**1.** (A) Select the appropriate alternative and rewrite. (Any **Eight**) **8**

1) The most important goal of financial management is _____.
(a) Corporate social responsibility (b) Matching income and expense
(c) Using assets effectively (d) Profit maximisation

2) The return obtained by a shareholder is better known as _____.
(a) Dividend (b) Money
(c) Interest (d) All of these

3) A / an _____ is a stream of regular periodic payments made or received for a specified period of time.
(a) Value (b) Overdraft
(c) Annuity (d) Capital

4) For future value calculations, _____ factor is used.
(a) Logical (b) Discounting
(c) Compounding (d) Reasoning

5) NPV stands for _____.
(a) Net Profitability Value (b) New Periodic Value
(c) Next Present Valuation (d) Net Present Value

6) _____ is a decision-making process for making investment decisions in fixed assets.
(a) Capital Budgeting (b) Business Finance
(c) Economic Value Added (d) None of these

7) PBT – Tax = _____.
(a) PBDT (b) Depreciation
(c) CFAT (d) PAT

8) Which of the following has the highest cost of capital?
(a) Equity (b) Debenture or bonds
(c) Preference (d) Loan

9) The interest rate on debentures is also known as _____.
   (a) Floatation cost (b) Coupon rate
   (c) Semi-fixed rate (d) None of these

10) Calculate the present value of Rs. 1,000 to be received at the end of 8 years. Assume an interest rate of 7 per cent per annum.
   (a) Rs. 582 (b) Rs. 649·37
   (c) Rs. 531·02 (d) Rs. 1,718·19

**1.** (B) Match the following items of Column **I** with Column **II** suitably. (Any **Seven**) **7**

| Column **I** | Column **II** |
|---|---|
| 1) Retained Earnings | (i) Period of 6 months |
| 2) Working capital financing | (ii) Market value of shares |
| 3) Maturity Value | (iii) Benefit-cost ratio |
| 4) Pay back period | (iv) Unsecured source of finance |
| 5) WACC | (v) Equity shareholders |
| 6) Bonus Shares | (vi) Overall cost of capital |
| 7) Public Deposits | (vii) Cumulative cash flows |
| 8) Profitability Index | (viii) Redeemable value of a bond |
| 9) Wealth maximisation | (ix) Short-term source of finance |
| 10) Half-yearly | (x) Reserves |

**2.** (A) Four equal annual payments of Rs. 5,000 are made into a deposit account that pays 8 per cent interest per year. What is the future value of this annuity at the end of 4 years? **8**

(B) A bank promises to give you Rs. 10,00,000 after 2 years at the rate of 12% interest, compounded quarterly. How much should you deposit today? **7**

**OR**

**2.** (C) PANKTI FINANCE Ltd. has offered a scheme of investment where a person investing Rs. 1,00,000 presently, is entitled to returns of Rs. 18,000; Rs. 25,000; Rs. 30,000; Rs. 32,000 and Rs. 35,000 in the next five years. The indicated rate of return @ 10% and the discount factor is as follows: **10**

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Discount Factor** | 0·9091 | 0·8264 | 0·7513 | 0·6830 | 0·6209 |

Advise whether the above investment is profitable or not.

**2.** (D) Find the present value of an annuity of Rs. 30,000 over three years at 10% discount rate. **5**

**3.** (A) A company can make either of two investments at period $t_0$. Assuming a required rate of 10%, determine the discounted pay-back period for each of the following projects : **15**

| Particulars | P | Q |
|---|---|---|
| Cost of investment (Rs.) | 2,00,000 | 2,80,000 |
| Expected life (in years) | 5 | 5 |
| Salvage / Scrap value (Rs.) | zero | zero |
| **Projected net income (after depreciation, interest and taxes)** : | Rs. | Rs. |
| Year 1 | 10,000 | 24,000 |
| 2 | 10,000 | 24,000 |
| 3 | 20,000 | 24,000 |
| 4 | 20,000 | 24,000 |
| 5 | 20,000 | 24,000 |

The company charges depreciation on straight-line basis.

The present value factor of Re. 1 @ 10% is given below:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| PVF @ 10% | 0·909 | 0·826 | 0·751 | 0·683 | 0·621 |

**OR**

**3.** (B) The cash flow streams for two alternative investments TATA and BATA are given below (along with the discount factor) : **15**

| Year | TATA (Rs.) | BATA (Rs.) | Discount Factor @ 11% |
|---|---|---|---|
| 0 | (2,00,000) | (2,10,000) | 1 |
| 1 | 50,000 | 80,000 | 0·901 |
| 2 | 80,000 | 60,000 | 0·812 |
| 3 | 1,00,000 | 80,000 | 0·731 |
| 4 | 80,000 | 60,000 | 0·659 |
| 5 | 60,000 | 80,000 | 0·593 |

Calculate the profitability index for the two alternatives and suggest which alternative is better.

**4.** (A) A company offers equity shares of Rs. 10 each for public subscription at a premium of 5%. The company pays 2% of the issue price as underwriting commission. The rate of dividend expected by equity shareholders is 30%. You are required to compute the cost of equity capital. **8**

(B) MAULI Ltd. issued 15,000, 12% debentures of Rs. 100 each at a discount of 10%. The debentures are redeemable after 10 years at a premium of 10%. Calculate the cost of debt before tax and after tax, if the tax rate is 40%. **7**

**OR**

**4.** (C) JABALRAM Ltd. has the following book-value capital structure as on March 31st, 2017: **15**

| | Rs. |
|---|---|
| Equity Share Capital (2,00,000 shares) | 40,00,000 |
| 11.5% Preference Shares | 10,00,000 |
| 10% Debentures | 30,00,000 |
| | 80,00,000 |

The equity share of the company sells for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per share, which is expected to grow at 5% p.a. forever. Assume a 35% corporate tax rate.
Compute the weighted average cost of capital (WACC) of the company based on the existing capital structure.

**5.** (A) What do you mean by Financial Management? Explain the importance of financial management. **8**

(B) Distinguish between debentures and equity shares. **7**

**OR**

**5.** (C) Write explanatory notes on (Any **Three**) : **15**

(i) Objectives of financial management
(ii) Future value of annuity
(iii) Cost of capital
(iv) Internal Rate of Return (IRR)
(v) Capital Budgeting