

Time: 2 ½ Hours

Total Marks: 75

- N.B. (1)** All questions are compulsory with internal choice.
(2) Round off upto 2 decimals unless specified in the question.

Q.1 (a): State whether the following statement are True or False (**any eight**):

[08]

1. Capital structure affects the cost of capital.
2. Dividend policy has no impact on shareholders.
3. Sensitivity analysis studies the impact of change in key variables.
4. Payback period method ignores cash flows after payback period.
5. Mutual funds pool money from many investors.
6. NAV represents the per unit value of a mutual fund.
7. Closed-ended funds allow investors to buy and sell anytime.
8. ETF stands for Exchange Traded Fund.
9. Yield to Maturity measures total return of a bond.
10. Bond duration measures interest rate risk.

Q.1 (b): Multiple the Choice Questions (**any seven**):

[07]

1. Decision tree analysis is mainly used for:
 A) Liquidity management B) Risk analysis C) Dividend decision D) Capital structure
2. Which mutual fund allows investors to enter and exit anytime?
 A) Closed-ended fund B) Open-ended fund C) Interval fund D) Fixed fund
3. Benefit-Cost Ratio is also known as:
 A) Profitability Index B) Rate of Return C) Cash Ratio D) Operating Ratio
4. Ageing schedule is used in:
 A) Inventory management B) Credit management C) Production management D) Marketing
5. The primary objective of financial management is:
 A) Profit maximization B) Wealth maximization C) Sales maximization D) Cost minimization
6. Break-even point occurs when:
 A) Profit is maximum B) Total revenue = Total cost C) Sales are minimum D) Variable cost = Fixed cost
7. SIP in mutual funds means:
 A) Systematic Investment Plan B) Simple Investment Plan C) Standard Income Plan D) Systematic Income Policy
8. A project is accepted under IRR method when:
 A) $IRR < \text{Cost of Capital}$ B) $IRR > \text{Cost of Capital}$ C) $IRR = 0$ D) $IRR < ARR$
9. Which capital budgeting technique is the simplest method?
 A) IRR B) NPV C) Payback Period D) Profitability Index

10. Credit policy mainly deals with:

- A) Cash sales B) Credit sales and collection C) Production planning D) Dividend policy

Q.2A. MA Ltd. is considering two different projects. Projects Y and Z are mutually exclusive projects each requiring an initial cash outflow of Rs. 4,00,000 having life of 10 years. The company pays tax @ 40% and its rate of return is required is at 20%. The projects will be depreciated on a Straight-Line Basis. The net cash flow before taxes and depreciation are expected to be generated by the Projects are as follows: [15]

Year	Project Y (Rs.)	Project Z (Rs.)
1	1,60,000	1,40,000
2	1,60,000	80,000
3	1,60,000	50,000
4	1,60,000	1,20,000
5	1,60,000	1,20,000

You are required to calculate:

1. The Payback Period of each project.
2. The Net Present Value of each project.
3. The Profitability Index of each project.

OR

Q.2B. A Ltd. is considering a project for which the following estimates are available.

Initial cost of the project	Rs. 20 lakhs
Sales Price/Unit	Rs. 300
Cost Per Unit	Rs. 180
No. of Unit Sold p.m.	1000
Life of the projects	10 years
Cost of Capital	15%

Calculate the sensitivity of the project with project cost, annual cash flow and state which is the most sensitive? [08]

Q.2C. ABC Ltd. has Rs.24,00,000 allocated for capital budgeting purpose. The following projects and associated profitability indexes have been determined.

Project	Cost (Rs.)	Profitability Index
1	12,00,000	1.20
2	6,00,000	0.90
3	4,00,000	1.20
4	4,00,000	1.18
5	8,00,000	1.20
6	16,00,000	1.02

Which is the above investment should be undertaken? Assume that projects are indivisible and there is no alternative use of the money allocated for capital budgeting. [07]

Q3A One-up Ltd. Has equity share capital of ₹20,00,000 dividend into shares of ₹100 each. It wishes to raise further ₹15,00,000 for expansion-cum-modernization scheme. The company plans the following alternatives:

- By issuing equity shares only.
- ₹5,00,000 by issuing equity shares and ₹10,00,000 through debentures @10% per annum.
- By raising term loan only at 10 % per annum.
- ₹5,00,000 by using equity shares and ₹10,00,000 by issuing 8% Preferences Shares.

They are required to suggest the best alternative giving your comment assuming that the estimated are interest and taxes (EBT) after expansion is ₹8,00,000 and corporate rate of tax is 50 %

[15]

OR

Q3B Details regarding three Companies are given below:

<u>A Ltd.</u>	<u>B Ltd.</u>	<u>C Ltd.</u>
R = 16%	R = 5%	R = 7.5%
Ke = 5%	Ke = 10%	Ke = 5 %
E = ₹ 10	E = ₹ 10	E = ₹ 10

By Using Walter's Model, you are required to calculate the value of an equity share of these companies when dividend payout ratio is:

[15]

- 40%
- 50%
- 20%
- 80%

Q4A. Matrix Ltd has an annual turnover of Rs.40 lacs and an average collection period of 6 weeks. The company proposes to introduce a more liberal policy as follows:

Proposed Credit Policy	Expected increase in Average Collection Period	Expected increase over Normal Sales (Rs.)	% of default
I	8 weeks	4,50,000	3%
II	7 weeks	6,50,000	5%

The Selling price of the product is Rs.10 per unit. The Variable cost is Rs.7 per unit. The current Bad Debt loss is 1% and the desired rate of return on investment is 20%. Suggest which credit policy should be adopted. Assume 52 weeks in a year.

[15]

OR

Q4B. Mr. R wishes to invest in one of the following Bonds having Face value of Rs.1,000/- maturing at par.

Bond	Coupon Rate	Maturity	Market Price
Bond X	10%	5 Years	Rs.1,080/-
Bond Y	12%	5 Years	Rs.920/-

Calculate the YTM of each Bond and which Bond would you recommend for investment?

[08]

Q4C. A Mutual Fund Company has the following assets under it on the close of business as on:

Company	No. of Shares	Market Price per share on 1-4-23
P	30,000	30
Q	40,000	320
R	50,000	400
S	1,00,000	500

Total Number of Units 10,00,000. Calculate the Net Asset Value (NAV) of the fund

[07]

Q.5) A. What are the advantages of Mutual Funds?

[08]

Q.5) B. Explain the function of Strategic Financial Management?

[07]

OR

Q.5) C. Write short notes on (any 3)

[15]

- a. Net operating Income
- b. IRR
- c. Cost of Receivables
- d. Ageing Schedule
- e. EVA

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