(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) State whether the following statements are **True** or **False**. (Any **Eight**) **8**

1) To achieve the goal of profit maximisation, for each alternative being considered, the financial manager would select the one which is expected to result in the highest monetary return.
2) Borrowed fund is owner's capital.
3) As bank overdraft is availed by business firms on a regular basis, it may be considered as a long-term source of fund.
4) Financial management basically deals with the procurement of funds and their effective utilisation in the business.
5) Capital budgeting decisions are long-term decisions.
6) Net present value method considers the time value of money.
7) Time value of money signifies that the value of a unit of money remains unchanged during different time periods.
8) Cost of debt and cost of preference share capital, both, require tax adjustment.
9) The cost of capital is the required rate of return to ascertain the value of the firm.
10) In simple interest, interest for every year is the same.

(B) Complete the following statements by choosing the appropriate alternative and rewrite. (Any **Seven**) **7**

1) Wealth maximization, as the goal of the firm, implies enhancing the wealth of the ____________.
(Board of Directors / employees / government / stockholders)
2) According to ____________, "Financial Management is concerned with efficient use of an important economic resource namely : capital funds."
(Joseph. L. Massie / Howard and Upton / Ezra Solomon / Phillippatus)
3) When the investment is compounded quarterly, *n* is to be multiplied with ____________.
(2 / 3 / 4 / 5)
4) Present value is the current value of a ____________ amount.
(present / future / near / current)
5) To arrive at CFAT, we need to add back ____________.
(tax / depreciation / interest / profit)

6) Capital budgeting decisions are ____________ decisions.
(short-term / mid-term / long-term / no term)
7) The abbreviation IPO stands for ____________
(Internal Profitability Option / Initial Public Opening / Investment Pretending Obligation / Initial Public Offer)
8) ____________ have fixed dividend on their investment.
(Preference shareholders / Equity shareholders / Debenture holders / Borrowers)
9) Cost of capital refers to ____________.
(flotation cost / dividend / required rate of return / term loan)
10) ____________ weights use accounting values to measure the proportion of each type of capital in the firm's financial structure.
(Book value / Market value / Share value / Par value)

2. (A) Mr. Shine deposits in a bank Rs. 5,00,000 for 4 years at 12% rate of interest. What will be the future value after 4 years, if the investment is compounded – **10**
(i) semi-annually
(ii) quarterly

(B) What is the present value of a sum of Rs. 72,000 for a period of 3 years compounded at the rate of 8.5% p.a.? **5**

OR

2. (C) Umesh can save Rs. 20,000 a year for 5 years and Rs. 3,000 a year for 10 years thereafter. What will be these savings accumulate at the end of 15 years, if the rate of interest is 10 per cent. **8**
(FVIFA @ 10% for 5 years = 6.1051 and FVIFA @ 10% for 10 years = 15.937)

(D) Find out the present value of a debenture from the following : **7**

Face value of the debenture	Rs. 1,000
Annual interest rate	15%
Expected return	12%
Maturity period	5 years

(Present values of Re. 1 at 12% are 0.8929, 0.7929, 0.7118, 0.6355 and 0.5674)

3. (A) Shailesh Company Ltd. has invested in a machine at cost of Rs. 10,00,000. Estimated life of the machine is 5 years. The company charges depreciation on SLM basis. **15**

Year	PBDT (in Rs.)
1	4,00,000
2	6,00,000
3	4,00,000
4	5,00,000
5	4,50,000

The company lies in the tax bracket of 50%. You are required to compute the Net Present Value (NPV) of the machine, if the present value factor is 8%.

The present value factor of Re. 1 @ 8% is given below:

Year	1	2	3	4	5
PVF @ 8%	0·926	0·857	0·794	0·735	0·681

OR

3. (B) Caravan Corporation is considering the following investment proposals requiring a net outlay of Rs. 1,20,000 and Rs. 2,40,000 respectively. The after tax cash inflows and discounting factor are provided below : **15**

Year	**After Tax Cash Inflow (CFAT) (in Rs.)**		**P. V. of Re. 1 at 15%**
	Project X	**Project Y**	
1	10,000	90,000	0·870
2	30,000	1,20,000	0·756
3	45,000	70,000	0·658
4	65,000	50,000	0·572
5	45,000	20,000	0·497

Rank these projects in order of their profitability according to the Profitability Index Method. (Assume the cost of capital at 15% for both the investment proposals).

4. (A) Regal Reform Company Ltd. has issued 10% redeemable debentures od face value Rs. 100 each, which are redeemable at par after 10 years. Assuming that the tax rate applicable is 40% and the floatation cost of debentures is 5%, calculate the cost of debentures (after tax) for the company. **8**

(B) A company whose face value per equity share is Rs. 10 has just paid a dividend of Rs. 4 per share. The expected growth rate of dividend is 12%. The current market price per share is Rs. 25. Calculate the cost of equity capital. **7**

OR

4. (C) The following is the capital structure of Sweeping Success Co. Ltd. : **15**

Source of finance	**Amount (in Rs.)**	**Cost (in %)**
Equity Share Capital	4,50,000	15
Retained Earnings	1,00,000	13
Preference Share Capital	1,00,000	11
Term Loan	3,50,000	15

Tax rate is assumed to be 50%.
You are required to calculate the weighted average cost of capital of the firm.

5. (A) Mention the objectives of financial management. **8**

(B) Explain the advantages of retained earnings as a source of capital. **7**

OR

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

(i) Concept of time value

(ii) Short term source of finance

(iii) Weighted Average Cost of Capital (WACC)

(iv) Scope of financial management

(v) Capital Rationing
