2 ½ Hours **Marks – 75**

Q.1. A. Multiple Choice Questions (any 8) **(8 M)**

1. Which financial concept is related to the present value of a future cash flow?
   a. Compound interest b. Discounting c. Annuity d. Amortization
2. A company is considering two investment projects. Project A has an internal rate of return (IRR) of 8%, while Project B has an IRR of 6%. Which project should the company choose if the cost of capital is 7%?
   a. Project A b. Project B
   c. Both projects are equally attractive. d. Neither project is attractive.
3. If a company's cost of equity is 10%, its cost of debt is 5%, and its tax rate is 30%, what is its WACC (weighted average cost of capital) assuming a 70% equity and 30% debt capital structure?
   a. 7.5% b. 8.0% c. 9.5% d. 10.5%
4. What is the primary purpose of using the Capital Asset Pricing Model (CAPM) in determining a company's cost of equity?
   a. To estimate the company's total market value.
   b. To calculate the company's earnings per share.
   c. To assess the company's financial leverage.
   d. To estimate the required rate of return for equity investors.
5. If a company is financed entirely by equity and has no debt, what is its WACC?
   a. Zero b. Equal to the cost of equity
   c. Equal to the cost of debt d. It cannot be calculated without debt.
6. What is the primary purpose of capital budgeting in business?
   a. To manage daily operational expenses.
   b. To evaluate potential long-term investment projects.
   c. To determine short-term financing needs.
   d. To assess quarterly financial performance.
7. Internal Rate of Return (IRR) is the discount rate that:
   a. Equals the project's initial investment.
   b. Results in the highest Net Present Value (NPV).
   c. Provides the shortest payback period.
   d. Measures the profitability of the project.
8. Which of the following is a tax-deductible expenditure?
   a. Interest on Debt b. Preference dividend c. Equity dividend d. All of the above
9. Dividend Payout ratio is
   a. DPS divided by MPS b. DPS divided by EPS
   c. DPS divided by Face value d. EPS divided by DPS
10. Dividend is distribution of
   a. Profit Before Tax b. Profit After Tax
   c. Income of the company d. Return on Debentures

Q.1.B Match the columns (any 7) **(7 M)**

Column A	Column B
1. Capital Budgeting	a. Highest
2. Traditional method	b. Overall cost of capital
3. DCF Technique	c. Lowest
4. ARR	d. Tax deductible
5. Cash Inflows	e. Issue of new securities
6. Cost of Debt	f. Payback period
7. Interest on Debt	g. Accounting profits
8. Cost of equity	h. Cash profits
9. WACC	i. Investing Decision
10. Flotation costs	j. NPV

Q.2.A Find out the present value of Equity Shares of a company from the following information: **(8 M)**

1. Number of shares invested in 100. Face value is Rs 10. Market value is Rs 15.
2. Dividend declared in the last year 15%
3. Dividend growth expected in the next 5 years is 10% p.a. Thereafter the growth is 7% over every year for a period of another 5 years.

Assume discount rate @ 10%

Q.2.B Mr. Ajay deposits Rs 3,00,000 annually in a bank for 6 years. The deposit earns 8% per year. What is the future value at the end of 5 years? **(7 M)**

OR

Q.2.C From the following information, calculate expected rate of return for Panasonic Ltd. And Ultrasonic Ltd. and advise whether the companies are good for investments. **(8 M)**

State of Economy	Probability of Occurrence		Expected Rate of Return (%)	
	Panasonic Ltd.	Ultrasonic Ltd.	Panasonic Ltd.	Ultrasonic Ltd.
Boom	0.5	0.4	40	50
Normal	0.3	0.3	20	24
Recession	0.2	0.3	10	14

Calculate the expected rate of return and standard deviation of both the companies.

Q.2.D Bunny started his business by investing Rs 6,50,000in his firm. Find the present value of the following cash flow streams if the discount rate is 12% **(7 M)**

Year	Cash flows (Rs)
1	50,000
2	80,000
3	70,000
4	60,000
5	80,000

P.V Factor of Rs.1

Year	1	2	3	4	5
12%	0.893	0.797	0.712	0.636	0.567

Q.3.A M/s. Pragna & Co. Ltd. Is considering two different projects. Project A and B are mutually exclusive projects each requiring an initial cash outflow of Rs. 1,00,000 having life of 5 years. The company pays tax @ 50% and its rate of return required is at 10%. The projects will be depreciated on a Straight-Line basis. The net cash flows before taxes and depreciation are expected to be generated by the projects are as follows: **(15 M)**

Year	Project A (Rs.)	Project B (Rs.)
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

You are required to calculate:

1. The payback period of each project.
2. The Net present value of each project.
3. The profitability index for each project.

OR

Q.3.B Standard Chemicals Ltd. Furnishes the following information: **(15 M)**

Project	Cash Outlay (Rs in lacs)	NPV (Rs. In lacs)
M	170	13.35
N	140	18.35
O	150	19.40
P	160	35.30

Rank them on Profitability Index and then select them also determine the NPV.

All projects are divisible, i.e., size of investment can be reduced, if necessary, in relation to the availability of funds. None of the projects can be delayed or undertaken more than once. Investment limit Rs.350 lacs.

Q.4.A Nice Ltd. Has the following capital structure: **(15 M)**

Particulars	Book Value (Rs.)	Market Value (Rs.)
Equity capital (25,00,000 shares of Rs 10 each)	2,50,00,000	4,50,00,000
Preference share capital (50,000 shares of Rs 100 each carrying 13% dividend)	50,00,000	45,00,000
Reserves and Surplus	1,50,00,000	-
Debentures (1,50,000 Debentures of Rs. 100 each carrying 14% interest)	1,50,00,000	1,45,00,000
	6,00,00,000	6,40,00,000

The expected dividend per share is Rs 1.40. The dividend per share is expected to grow at a rate of 8% forever. Preference shares are redeemable after five years, whereas the debentures are redeemable after six years. The tax rate for the company is 50%. Calculate the weighted average cost of capital for the existing capital structure using: Book value weights

OR

Q.4.B The Aaroha Company has the following capital structure**:** **(15 M)**

	Rs.
Common Shares (4,00,000 shares)	80,00,000
6% Preference Shares	20,00,000
8% Debentures	60,00,000
	1,60,00,000

The share of the company sells for Rs.20. It is expected that company will pay next year a dividend of Rs. 2 per share which will grow at 7% for ever. Assume a 35% tax rate.

a. Compute a weighted average cost of capital based on existing capital structure

b. Compute the new weighted average cost of capital if the company raises an additional Rs. 40,00,000 debts by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave growth rate unchanged, but the price of share will fall to Rs. 15 per share.

c. Compute the cost of capital if in (a) above growth rate increases to 12%

Q.5.A Explain the various methods of financing business operations. **(8 M)**

Q.5.B What are the main objectives of financial management? **(7 M)**

OR

Q.5.C Write Short notes: **(any 3)** **(15 M)**

1. Factors Influencing capital budgeting
2. Ploughing back of profits
3. Factoring as a method of financing
4. Opportunity cost of capital
5. Concept of time value of money