

Please check whether you have got the right question paper.

- N.B:
1. **All Questions are compulsory.**
 2. **Figures to the right indicate full marks.**
 3. **Working should form part of the answer.**

Q1 A) CHOOSE THE CORRECT ALTERNATIVES FROM THE OPTIONS GIVEN BELOW.

ANY 8 OUT OF 10.

{8}

- 1) _____ interest is calculated on growing principal.
a) Compound b) Simple c) both of the above d) none of the above
- 2) _____ means production of capital goods.
a) Investment b) Savings c) Time value d) Risk
- 3) _____ annuity is where payment is continuous forever, it is never ending annuity.
a) Deferred b) Immediate c) Perpetuity d) Annual
- 4) _____ risk is the possibility for an investor to experience losses due to the factors that affect the performance of the financial markets in which he is involved.
a) Market b) Unsystematic c) Strategic d) Specific.
- 5) _____ is the difference between value of what you own (assets) and what you owe (liabilities).
a) Wealth b) Interest c) Deposit d) Investment
- 6) _____ is $\text{income} + (\text{end period value} - \text{initial value}) / \text{initial value}$
a) Internal rate of return b) Holding period return c) Net present value d) Effective rate of return.
- 7) _____ is the partnership in which some or all partners (depending on jurisdiction) have limited liabilities.
a) Sole proprietorship b) Partnership c) Limited liability partnership d) HUF
- 8) A _____ is simply an agreement whereby a person or company agrees to hold the asset for the benefit of others.
a) Contract b) Trust c) Lease d) Power of attorney
- 9) _____ is the rate when the present value of cash inflow is equal to present value of cash outflow.
a) Internal rate of return b) Holding period return c) Net present value d) Effective rate of return.
- 10) _____ is the mean annual growth rate of an investment over a specified period of time longer than one year.
a) CAGR b) HPR c) IRR d) NPV

Q1 B STATE WHETHER THE FOLLOWING ARE TRUE OR FALSE. (ATTEMPT ANY 7 OUT OF 10) (7 marks)

- 1) When the present value of a project is negative it is accepted.
- 2) In sole proprietorship the liability of the sole proprietor is limited.
- 3) Money does not have time value.
- 4) An annuity is a contract between an insurance company & an individual in which an insurance company makes a series of guaranteed income payments in return for premium from the individual.
- 5) In speculation the investor needs to be cautious & conservative.
- 6) Smart investment goals need not be rewarding.
- 7) Defensive assets include investments such as cash and fixed deposits.
- 8) Long term debts consist of loans and financial obligation lasting over one year.
- 9) Refinance occurs when a business or person revises a payment schedule for repaying debt.
- 10) In partnership principal-agent relationship is absent.

Q2 ANSWER THE FOLLOWING QUESTIONS (15 marks)

- A) What is investment? State the features of investment (8 marks)
 - B) What is sole proprietorship? State the features of sole proprietorship. (7 marks)
- OR**
- C) What is debt management? Explain short term and long term debt management. (8 marks)
 - D) Distinguish between investment and speculation. (7 marks)

Q3. ANSWER THE FOLLOWING QUESTIONS (15 MARKS)

A) An Investment of Rs 40,000 made on 1st April 2015 provides inflows as follows.

Date	Project 1	Project 2
1/4/2016	20,000/-	10,000/-
1/4/2017	10,000/-	20,000/-
1/4/2018	10,000/-	10,000/-
1/4/2019	10,000/-	10,000/-

Which alternative would you prefer if the investors expected return is 10%? Calculate using NPV method. (8 Marks)

B) i)What will be the future value of an investment of Rs 10,00,000 compounded at an interest of 10% p.a for 7 years? (4 marks)

ii) Calculate the present value of annuity of Rs 75000 received annually for 5 years when the discounting rate is 10%. (3 marks)

OR

C) A project needs an investment of Rs 1,38,500 The cost of capital is 12%. The net cash inflow are as follows.

Year	Rupees
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Calculate the IRR and suggest whether the project should be accepted or not? (8 marks)

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- D) i) Mr A has to receive Rs 90000 per year for six years. The present value of annuity is said to be calculated assuming that he can earn interest on his investment @ 12% p.a. (4 marks)
- ii) What will be the future value of an investment of Rs 50000 compounded half yearly @ 15% p.a. for 5 years. (3 marks)

Q4 ANSWER THE FOLLOWING QUESTIONS

(15 marks)

- A) Following is the profit and loss a/c of Milky Way Ltd for the year ended 31/03/2016 (8 marks)

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To opening stock	2,00,000	By sales 10,50,000	
To purchases 5,75,000		- Returns (50,000)	10,00,000
- Returns (25,000)	5,50,000	By closing stock	2,50,000
To factory rent	1,25,000		
To direct wages	1,25,000		
To gross profit c/d	2,50,000		
Total	12,50,000	Total	12,50,000
To office rent	12,500	By gross profit b/d	2,50,000
To salaries	25,000	By interest	17,500
To selling expenses	18,750	By profit on sale of investment	1,250
To discount allowed	6,250		
To interest	10,000		
To bank charges	2,500		
To depreciation	30,000		
To loss on sale of assets	5,000		
To income tax	45,000		
To net profit	1,13,750		
total	2,68,750	total	2,68,750

Calculate the following ratios.

- Gross profit ratio
- Operating ratio
- Net profit ratio
- Stock turnover ratio

- B) Avinash borrowed Rs 30000 from a bank which is to be repaid in 3 years. The loan + interest is to be repaid in equal quarterly instalments. Rate of interest is 10% p.a. Prepare a loan amortization schedule. (7 marks)

OR

C) Following is the balance sheet of Valia Ltd for the year ended 31/03/2016 (15 marks)

LIABILITIES	RS	ASSETS	RS
Equity Share capital	8,00,000	Goodwill	2,50,000
8% preference share capital	4,00,000	Furniture & fittings	6,00,000
General reserve	2,00,000	Land and building	8,00,000
Profit & loss a/c	2,00,000	Stock	2,00,000
10% mortgage loan	4,00,000	Debtors	4,00,000
Accounts payable	2,00,000	Cash & bank balances	1,20,000
Advance to customers	1,00,000	Prepaid Expenses	80,000
Provision for taxation	1,20,000	Preliminary Expenses	30,000
Proposed dividend	80,000	Discount on issue of debentures	20,000
	25,00,000		25,00,000

Credit purchases for the year Rs 10, 00,000

Calculate the following ratios.

- 1) Current ratio
- 2) Acid test ratio
- 3) Proprietary ratio
- 4) Capital gearing ratio
- 5) Debt equity ratio
- 6) Stock to working capital ratio
- 7) Creditors Turnover ratio

Q5 ANSWER THE FOLLOWING QUESTIONS

(15)

A) Explain various types of investment risk.

(8)

B) What is wealth erosion? Enumerate various reasons of wealth erosion.

(7)

OR

Q5 SHORT NOTES. ATTEMPT (ANY 3 OUT OF 5)

(15)

- a) Refinancing
- b) Hire purchase
- c) Trust
- d) Limited liability partnership (LLP)
- e) Wealth protection
