

6. Time value of money is considered under-----
 - a) Pay-back method.
 - b) NPV method.
 - c) Average Rate of Return Method.
 - d) Post Pay-back Method.

7. One of the following is a non-current liability----
 - (a) Mortgage loan
 - (b) Sundry creditors.
 - © Outstanding salary.
 - d) Bills payable.

8. Conversion Cost is equal to the total of:-----
 - a) Direct Material Cost and Direct Wages
 - b) Direct Material Cost and Indirect Wages
 - c) Direct Wages and Factory overhead
 - d) Direct Material Cost and Factory overhead

Q.2. State whether the following statements are True or False:

1. Margin of safety = $\frac{\text{Profit}}{\text{P/V ratio}}$
2. Horizontal analysis is also known as 'static analysis'.
3. Cash flow statement is based upon the accrual basis of accounting.
4. Lower certainty equivalent coefficients are indicators of lower risk of cash inflows.
5. For financial decision making, relevant costs are the historical costs.
6. Lessee can claim depreciation on asset acquired through lease arrangement.
7. According to MM theory, the total value of a firm is constant for different degrees of debt in a given capital structure.
8. Money market deals with long-term funds.

Q.3. Fill in the blanks:

1. Direct materials+ Direct labour +Direct Expenses= -----.
2. Internal Rate of Return is the rate of discount at which the NPV of a project is ----
3. Term loans carry ----- covenants.
4. ----- is a type of merger of firms engaged in various stages of production and distribution of the same product.
5. Lease rentals are ----- % deductible for computing Income Tax.
6. The term trading on equity is generally used for ----- financial leverage.
7. MM Approach is similar to ----- approach.
8. ----- in an organized market where shares, bonds and other securities issued by Corporates are listed and traded.

Q.6. a) Profit Maximisation is the principal objective of financial management—
Do you agree with this statement? Give reasons supporting your view.

b) Equity share of A Ltd. is quoted in the market at Rs.20 currently. The company pays a dividend of Re 1 per share and the investor's market expects a growth rate of 5% per year.

(i) Compute the company's equity cost of capital.

(ii) If the anticipated growth rate is 6% p.a , calculate the expected market price per share.

(iii) If the company's cost of capital is 8% and the anticipated growth rate is 5% p.a., calculate the indicated market price, assuming that the dividend of Re 1 per share is to be maintained.

Q.7. Write short notes on any **four** from the following:

a) Escalation clause in a contract

b) Operating Lease

c) Working Capital Cycle

d) Cash Flow vs. Funds Flow Analysis.

e) Preference shares as source of Long-term finance.

f) Project Appraisal

g) Stock Exchange

h) Machine Hour Rate

Q.8. Using the Risk Adjusted Discount Rate Method, calculate the NPV of the following independent Investment proposals.

Project Name	Capital outlay (Rs.)	Estimated economic life (year)	Annual cash inflow (Rs.)
X	200,000	5	60,000
Y	240,000	5	80,000
Z	440,000	5	150,000

The company has selected the following Risk Adjusted discount rates, shown along with the respective P.V factors for an annuity of Re.1:

Project Name	Risk Adjusted Discount Rate	P.V factor (%)
X	12	3.6048
Y	14	3.4331
Z	16	3.2743

Q.9. The capital structure of Asha Ltd. is as under:

	(Rs.in lakhs)
Equity shares of Rs.100 each	40
Retained earnings	20
8% Preference shares	24
7% Debentures	16
	<u>100</u>

The company earns 12% on its total capital. The tax rate applicable is 35%. The company requires a sum of Rs.50 lacs for which following options are available to it:

- (i) Issue of 40,000 equity shares at a premium of Rs.25 per share.
- (ii) Issue of 9% preference shares.
- (iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity share, preference share and debenture financing would be 22.5, 18.5 and 15.2.

- a) Calculate the earning per share and the Market price per share under each option.
- b) Which financing option do you recommend?

PART C

Q.10. Growmore Ltd. wants to install a new machine in the place of an existing old one which has become obsolete. The company has made extensive enquiries and, from the replies received, short-listed two offers. The two models differ in cost, output and anticipated net revenue. The estimated life of both the machines is five years. There will be no salvage value at the end of the fifth year. Further details are as follows:

Machine	Cost	(Figures in lakhs of rupees)				
		Anticipated After-tax Cash Flow				
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
A	25	—	5	20	14	6
B	40	10	14	16	17	8

The Company's cut-off rate is 16%.

- a) You are required to make an appraisal of the two offers and advise the firm by using the Net Present Value Method.
- b) Also calculate----
 - (i) The Pay-back Period
 - (ii) Benefit-Cost Ratio.
 - (iii) Internal Rate of Return.
- c) Offer your critical comments on the results arrived at by using the four bases of Investment Appraisal at a) & b) above.

Note: Present value of Re.1

End of Year	16%	18%	20%
1	0.862	0.847	0.833
2	0.743	0.718	0.694
3	0.641	0.609	0.579
4	0.552	0.516	0.482
5	0.476	0.437	0.402