

SY (B/I) - 4

ACASIA

Fin. Mgt - II

5

TIME : 2 hrs.

March 2009

MARK : 60

- Instruction :** 1) All questions are compulsory
2) Figures to the right indicate marks.

- Q.1 A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly demand for its products. The company is having 2 options : Machine A and Machine B. The cash flow at present level of operation is as under and P.V. factor at 10% discounting rate is also as under.

Year	P.V.Factor	Cash Flow Machine A Rs.(lacs)	Cash Flow Machine B Rs.(lacs.)
0	1.00	(25)	(40)
1	0.91	NIL	10
2	0.83	5	14
3	0.75	20	16
4	0.68	14	17
5	0.62	14	15

You are required to calculate

- 1) Pay Back period
 - 2) Discounted pay Back Period
 - 3) Net Present Value
 - 4) Profitability Index
- and advise the financial manager to make decision.

OR

- Q.1 What is Capital Budgeting? Explain the features of capital Expenditure Decisions.

- Q.2 B Ltd. has the following capital structure.

Equity Shares	Rs.60 lakhs
12% Pref. Shares	Rs.10 lakhs
14% Debentures	Rs.30 lakhs.
	Rs.100 lakhs.

The market price of the company's share is Rs.20. It is expected that the company will pay next year a dividend of Rs.2 per share which will grow at 8% for ever. Assume 40% Tax rate.

- A) Weighted average cost of capital based on existing capital structure.
- B) Compute new weighted average cost of capital if the company raises an additional Rs.20 lakhs debt by issuing 15% Debentures.

This would result in increase in expected dividend to Rs.3 per share and leave the growth rate unchanged but the price of the share will fall to Rs.16.

OR

- Q.2 A) Cost of Preference capital is less than cost of equity capital - Discuss. 10
B) What is opportunity cost of capital? 05

- Q.3 Write short notes on (5 marks each)

- 1) Features of Term Loan
- 2) Structure of financial institutions in India
- 3) Steps involved in term Loan.

OR

What is project Appraisal? Explain areas of Project Appraisal.

15