DURATION: 2.5 HOURS

Figures to the right indicate Marks.

All questions are compulsory

Q.1. (a) Fill in the blanks. (Any 8) **(8)**

1. Inventories are also termed as ____ (Stock/ Warehouse)

2. Advance payment of tax is _______ (current asset/ current liability)

3. Debenture is a _____ security. (creditorship/ ownership)

4. Cost of Capital will be _____ if the Debt-equity ratio is Zero. (High/ Low)

5. Tax considerations do not enter into the cost of ______ calculations. (Equity/ debt)

6. ______ considers time value of money. (IRR/ NPV)

7. Deferred income is a ______ liability. (Current/ long term)

8. Depreciation is added to ______ to obtain cash inflow. (NPAT/ NPBT)

9. Shareholders risks are greater than _______ holders. (Debentures/ Preference)

10. _____ is most liquid asset. (Cash/ debtors)

Q.1. (b) State whether the following statements are true or false. (any 7) **(7)**

1. At the point of IRR, NPV is zero.

2. Cost of equity is always zero.

3. DFL= Contribution/ EBIT

4. NPV and PI are same.

5. P/V ratio= Sales/ Contribution.

6. Cost of Equity is always zero.

7. There is positive correlation between risk and return.

8. Cost of capital is used in capital budgeting decision.

9. Trade credit is a source of working capital.

10. Debt is a borrowed fund for a company.

Q.2. Following is the Information of Samira Company ltd. **(15)**

The company has to invest in 1 project. There are 2 options A and B.

PV factor is 10%. Tax rate- 50%. Both have initial investment of Rs. 20000.Life of the project- 5 years.

Following are the net profits before depreciation and.tax for the 2 projects.

Year	Project A	Project B	Present value factors at 10%
1	8000	12000	0.909
2	8000	6000	0.826
3	8000	4000	0.751
4	8000	10000	0.683

Calculate: (a) payback period, (b) ARR, (c) NPV, (d) profitability index.

OR

Q.2. Following is the information of Dezire company ltd. It has to invest in 1 project. **(15)**

There are 2 options, P and Q. Initial investment for both the projects is Rs. 400000.

Cash Inflows for the projects are as follows:

Year	Project P	project Q	PV factor @ 12%	PV Factor @14%
1.	100000	160000	0.893	0.877
2.	100000	160000	0.797	0.769
3.	120000	160000	0.712	0.675
4.	120000	160000	0.636	0.592
5.	120000	160000	0.567	0.519

Calculate: 1. Payback period, 2. NPV (using PV factor 10%), 3. Profitability Index (10% PV factor)

4. IRR (use PV factor 12% and 14% for both projects)

Q.3. Following is the information of- 4 firms namely AB, CD, EF, GH. Calculate market value of Equity and Debt of all firms and compute WACC for 4 firms. **(15)**

Assume no tax.

Firm	EBIT	Interest(12%)	Equity Cost
AB	600000	60000	10%
CD	800000	140000	15%
EF	1200000	600000	12%
GH	1400000	680000	16%

OR

Q.3. A firm has 3 situations: X.Y and Z. And it has 3 plans I, II and III under each situation. **(15)**

Installed capacity – 2400 units.

Actual production: 1600 units.

Selling price - Rs. 15 per unit.

Variable cost - Rs. 10 per unit.

Fixed Cost: Situation –A - Rs.2000

Situation –B - Rs. 4000

Situation –C - Rs. 6000

Financial Plan:	I	II	III
Equity	10000	15000	5000
12% Debentures	10000	5000	15000

Calculate 3 types of leverages and PV ratio for each Situation and each plan under it.

Q.4. A company named "Zara" wants to invest in a project for which it needs Rs. 1000000. **(15)**

It has 3 financial plans which are as follows.

Plan XY - 100000 equity shares of Rs.10 each.

Plan AB- 50000 equity shares of Rs 10 each and 5000 8% Debentures of Rs. 100 each

Plan PQ- 50000 equity shares of Rs. 10 each and 5000 8% preference shares of Rs. 100 each

Following are the options of EBIT of the firm.

Option 1: EBIT – Rs. 80000

Option 2: EBIT- Rs. 120000

Option 3: EBIT –Rs. 200000

Calculate EPS under each option and each plan and recommend which financial plan is beneficial.

OR

Q.4. From the following details prepare a working capital estimate. **(15)**

Units produced and sold – 180000 units per year

Raw material – Rs. 20 per unit

Wages - Rs. 5 per unit

Overheads – Rs. 15 per unit.

Selling price Rs. 50

Overheads per unit consists of depreciation of Rs. 5 per unit.

Cash Balance – Rs. 20000

Raw material remains in stock for 2 months

Processing period is for half month

Finished goods remain in stock for 1 month.

Customers are given credit of 2 months.

25% of total sales are cash sales.

Suppliers give us credit of 1 month

Time lag in payment of wages- 1 month

Time lag in payment of overheads- half month

Q.5. Short notes. (Any 3/5) **(15)**

1. Advantages and disadvantages of payback period method
2. Explain WACC with diagram.
3. Explain 3 types of leverages.
4. Explain risk and its types in investment.