Time: 2 ½ Hours **Max. Marks 75**

Note: 1. Q 1 is compulsory.

2. Q2 to Q5 having internal option.

3. Figures to the right indicates full marks.

4. State your assumption clearly.

Q 1. (A) Choose the correct alternatives.(Any 8 out of 10) **8 Marks**

1) GDR means ________________
   a) Global Depository Receipt b) German Depository Receipt
   c) Global Depression Recession d) None of the above

2) BFS Corporation, Equity Shares has a beta =1.2. The risk free rate is 6% and the market return is 11%. Cost of equity using CAPM is ____________
   a) 12% b) 21%
   c) 12.2% d) 21.8%

3) A proposal is NOT a Capital Budgeting proposal if it _____________
   a) Is related to Fixed Assets b) brings long-term benefit
   c) Brings short-term benefits only d) has very large investment

4) If I deposit Rs. 1000 for 10 years and the rate is 10% compounded semi-annually, the future value of deposit will be ____________
   a) Rs. 1593.74 b) Rs. 2.59374
   c) Rs. 2653.29 d) Rs. 1893.74

5) If a firm has no debt, which one is correct? ______________
   a) OL is zero ` b) FL is zero
   c) CL is zero d) None of the above

6) Higher OL is related to the use of higher ____________
   a) Debt ` b) Equity
   c) Fixed Cost d) Variable Cost

7) Which of the following sources of funds has an Implicit Cost of Capital? __________
   a) Equity Share Capital ` b) Preference Share Capital
   c) Debentures d) Retained Earnings

8) Which of the following is not a feature of an optimal capital structure: ___________
   a) Profitability ` b) Liquidity
   c) Flexibility d) Control

9) Shareholders wealth in a firm is represented by ___________
   a) The number of people employed in the firm
   b) The book value of the firm's assets less the book value of its liability
   c) The amount of salary paid to its employees
   d) The market price per share of the firms common stock

10) For a constant EBIT, if the debt level is further increased then ___________
   a) EPS will always increase   b) EPS may increase
   c) EPS will never increase   d) None of the above

Q 1. (B) <u>State whether following statement are True or False (7 out of 10)</u> **7 Marks**

1) Cash profit = Profit After Tax + Depreciation
2) When the cost of debt increases the average cost of capital decreases
3) Financial leverage is to the extent to which a business firm employs owed capital in its capital structure
4) At Break-even point profit is minimum
5) If Net Worth is Rs. 15,00,000 & Debt/Equity ratio is 3:1, then Debt is Rs. 50,00,000
6) An optimal capital structure, the cost of capital is least
7) Secondary Market is the Market for fresh issue of shares
8) If NPV >equal to zero, then project is acceptable otherwise project has to be rejected
9) Retained Earnings is one of the sources of short term finance of the company
10) If Contribution is Rs. 5,00,000 and Earnings before tax is Rs. 2,00,000 then CL is 2.5:1

Q 2. (A) PAN Ltd requires Rs, 10,00,000. The following three plans are available:

a) Issue of equity shares at par
b) Issue 25,000 equity shares of face value Rs. 10 at a premium of 100% and 5,000, 5% debentures of face value Rs. 100.
c) Issue 50,000 equity shares of face value Rs. 10 at par and remaining by 7% preference shares of face value Rs. 100 issued at par.

If the companies EBIT is 14%, **select the best financial plan and give your suggestion** on the basis of EPS analysis. Tax rate applicable is 30%. **15 Marks**

<u>OR</u>

Q 2. (P) From the following information available for two firms.

Calculate the Earnings before Interest Tax (EBIT), Earnings per share (EPS), the Operating leverage and the Financial leverage. **8 Marks**

Particulars	Yara Ltd	Zara Ltd
Sales (in Unit)	20,000	30,000
Selling price per unit (Rs.)	15	25
Variable cost per unit (Rs.)	10	20
Fixed cost (Rs.)	30,000	50,000
Interest (Rs.)	15,000	35,000
Tax %	40	40
Number of Equity Share	5,000	10,000

Q 2. (Q) LAN Ltd. issues 10,000; 10% Preference shares of Rs. 100 each redeemable at par after 10 years. Assuming 5% flotation cost on face value of shares and 35% tax rate, **Determine the before-tax and after-tax cost of preference capital**, if the preference shares are issued at 10% discount. **7 Marks**

Q 3. (A) For WAN Ltd. the annual rate of return and related probabilities are given below. **8 Marks**

Asset A		
State of Economy	**Rate of return (%)**	**Probability**
Boom	10	0.30
Normal	15	0.40
Recession	20	0.30

For asset A, **Compute expected return and standard deviation**.

Q 3.(B) Assume a 10% discount rate. Compute the present value of Rs. 11,000; Rs. 9,000; Rs. 15,000; Rs. 7,000 received at the end of the year for 4 years respectively. **7 Marks**

OR

Q 3. (P) Find the future value utilizing a time preference rate of 9%

a) Rs. 25,000 invested now for a period of 4 years

b) At the end of 5 years of an annual deposit of Rs. 1,00,000 per year. **8 Marks**

Q 3. (Q) You are thinking of acquiring some shares of ABC Ltd. The rates of return expectation are as follows: **7 Marks**

Possible rate of return (%)	Probability
5.0	0.20
10.0	0.40
8.0	0.10
11.0	0.30

Compute:

a) The expected rate of return

b) The standard deviation of the expected return.

Q 4. (A) A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow (i.e. after taxes and before depreciation). **15 Marks**

Year	Net Cash Inflows Rs.
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital (rate of discount), **Determine the NPV**

OR

Q 4.(P) Calculate the Internal Rate of Return of an investment of Rs. 1,36,000 which yields the following cash inflows: **15 Marks**

Year	Cash Inflows (in Rs.)
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Use 10% and 12% discounting factor.

Q 5. **Write short notes** on (Any Three): **15 Marks**

a) Creditorship Securities
b) Distinguish Over Capitalization and Under Capitalization
c) Traditional method of Capital Budget
d) Sources short term Finance.
e) Public Deposits.

OR

Q 5. (A) Comment: Corporate Finance is managing financial activities involved in running a corporation. **8 Marks**

Q 5. (B) What is the role of a finance manager in a modern business enterprise? **7 Marks**
