Roll No.....................................

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 8***

NOTE : *1. Answer **ALL** Questions.*

2. Tables showing the present value of ₹ 1 and the present value of an annuity of ₹ 1 for 15 years are annexed.

3. Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.

1. Common on the following :

(*a*) Wealth maximization is a decision criterion and not a goal of a business firm.

(*b*) Credit terms to debtors can be relaxed so long as additional cost of investment does not exceed additional contribution.

(*c*) There are no benefits to holding securities under the depository system.

(*d*) The study and measurement of financial leverage irrelevant.

(*5 marks each*)

Attempt all parts of either Q. No. 2 or Q. No. 2A

2. Distinguish between the following :

(*a*) Transaction risk and translation risk.

(*b*) Term finance and operating lease finance.

(*c*) Financial aspect and economic aspect of proejct appraisal.

(*d*) Financing decision and dividend decisions.

(*4 marks each*)

OR (Alternate question to Q. No. 2)

2A. (*i*) What are the points of differences between Net Present Value and Internal Rate of Return approach used for evaluating investment proposals ? Discuss.

(*4 marks*)

(*ii*) What are the technical factors that affect foreign exchange rate. Discuss.

(*4 marks*)

(*iii*) Discuss what are the various sources of Permanent Working Capital.

(*4 marks*)

(*iv*) Discuss the concepts of financial distress and insolvency.

(*4 marks*)

Attempt all parts of either Q. No. 3 or Q. No. 3A

3. (*a*) The following figures are provided to you for ABC Ltd. :
Net Profit before Tax = ₹ 17,50,000
The company has 1,00,000 no. of equity shares of face value ₹ 10 fully paid up.
The current market price of the equity shares is ₹ 85 per share.
The Income Tax @ 30% apply to company.
What will be that P/E ratio for the company ?

(*4 marks*)

(*b*) A company has to choose from two mutually exclusive project proposals A and B, which require cash outlays of ₹ 8,35,000 and ₹ 9,00,000 respectively. The current yield on government bonds is 7% and this is used as risk free rates. The expected net cash flows from the two projects are as under :

Year end	**Project A**	**Project B**
1	₹ 3,60,000	₹ 4,05,000
2	₹ 3,50,000	₹ 3,60,000
3	₹ 2,50,000	₹ 3,50,000

Which of these projects should be accepted ?

(*4 marks*)

(*c*) The net sales of ABC Ltd. is ₹ 30 crore. Earnign before interest and tax of the company as a percentage of net sales is 15%.

The capital employed comprise of :

Equity—₹ 12 crore

13% cumulative pref. shares ₹ 5 crore

Debentures @ 15% ₹ 6 crore

Calcualte operating leverage of the company given that combined leverage is 3.

(*4 marks*)

(*d*) PQR Ltd. issues commercial paper for ₹ 3 crore on 90 days maturity in December at an interest rate of 11.50 p.a.

Calculate the net amount received by the company on issue of commercial paper of ₹ 3 crore ?

(*4 marks*)

OR (Alternate question to Q. No. 3)

3A. (*i*) The following rates appear in Foreign Exchange Market :

	Spot Rate	2 Month Forward Rate
₹/1 US Dollar	₹ 64.00/₹ 64.20	₹ 64.70/₹ 65.00

(*a*) How many US Dollars a Firm will have to sell to get ₹ 64.70 million after 2 months ?

(*b*) How many rupees the firm will be required to pay to obtain US Dollar 2,00,000 in the spot market ?

(*c*) Assuming that the firm has US Dollars 50,000, how many rupees the firm will obtain in exchange for the US Dollars ?

(*d*) Are forward rate at premium or discount ? Show the percentages also.

(*4 marks*)

(*ii*) XYZ Ltd. has 25,000 outstanding shares at current markt price of ₹ 100. It belongs to a risk class with capitalisation rate of 20%. The company expects to earn a net profit of ₹ 5,00,000 during a year. What will be the price of share if dividend is not paid ?

(*4 marks*)

(*iii*) The share of WMZ Ltd. is at market price of ₹ 120. Put option with a strike price of ₹ 130 is priced at ₹ 15 :

(*i*) What is the intrinsic valeu of option

(*ii*) What is the time value of option.

(*4 marks*)

(iv) The following projected figures are available for Ritu, Ltd., a trading concernfor the year 2017-18 :

Sales ₹ 27,00,000 **Purchases Rs. 18,70,000**

	Rupees	
	1-4-2017	**31-3-2018**
Inventory	3,00,000	3,40,000
Debtors	3,40,000	2,60,000
Creditors	1,80,000	1,40,000

All sales and purchases are on credit and assume 365 days in a year.

Compute the cash operating cycle in days.

(*4 marks*)

4. (*a*) "A" Ltd. issues ₹ 1,000 optionally convertible debentures at a coupon of 12% convertible into 50 equity shares on a date excatly 5 years before maturity. The date for optional conversion has come. The shares are quoting at ₹ 25. Investors expect 10% p.a. return on a 5 years debenture. Will you suggest conversion ?

(*b*) In Delhi Ltd. the following data is available for one of the A class items of inventory :

Annual usage 1000 units

Ordering cost ₹ 400

Carrying cost 40%

Unit cost ₹ 20

Which of the following strategies being considered would you advise. Give detailed working in support of your answer :

(*i*) Place 4 orders of equal size every year

(*ii*) place an order for 500 units at a time and avail a discount of 10% on the cost of items.

(*c*) Explain the statement "Higher the return the higher will be the risk".

(*d*) "Bank lending must necessarily be based on principles that reflect the concerns of the depositors." Comment.

(*4 marks each*)

5. (*a*) Compute the requirement of Working Capital of a company from the following information provided :

Sales for current year ₹ 25,00,000

There will be increase in sales by 40% in the next year

Gross Profit 20% on sale

Creditor purchase 1/4th of Cost of Goods Sold

Average collection period = 60 days

Average payment period = 60 days

Inventory Holding Period = 90 days (On the basis of Cost of Goods Sold)

Cash and Bank Balance 2% of Sales

(for calculation 1 year to be taken 12 × 30 = 360 days).

(*8 marks*)

(*b*) An equipment costing ₹ 4,00,000, with a life of 4 years, can be leased for 4 years for payment of ₹ 1,20,000 per year at the end of the year. Alternatively, there is an option to borrow ₹ 4,00,000 and buy the equipment. The borrowed fund will carry interest @ 6 per cent payable on the outstanding balance at the close of each year.

The principal borrowed sum is to be repaid in 4 equal instalments

Depreciation to be considered at 25% per cent on the original cost per annum.

Corporate tax to be considered at 30% for this exercise. A fair return of 10% after tax is expected on the business.

Present your choice with comparitive analysis.

(*8 marks*)

6. BG Co.'s present annual sales amount to ₹ 36 lakhs at ₹ 12 per unit. Variable cost are ₹ 6 per unit and fixed cost amount to ₹ 2.50 lakhs per annum.

Company presently offers credit period of one month to its customers. It is proposed to extend credit period to 2 months and 3 months. The following are the estimates of the results likely to be obtained by change of credit terms :

Credit Policy	1 month	2 month	3 month
Increase in sales %		10	25
% of Bad Debts to Sales	1	2	5

Fixed costs will increased by ₹ 1,00,000 annually after any increase in sales aboe 20% over the present level.

The company requirs a pre-tax return on investment of 20% for the level of risk involved. What will the most rewarding credit policy for the company ?

(*16 marks*)

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TABLE - 1 : **PRESENT VALUE OF RUPEE ONE**

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
5%	0.9524	0.9070	0.8638	0.8227	0.7835	0.7462	0.7107	0.6768	0.6446	0.6139	0.5847	0.5568	0.5303	0.5051	0.4810
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584	0.5268	0.4970	0.4688	0.4423	0.4173
7%	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083	0.4751	0.4440	0.4150	0.3878	0.3624
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632	0.4289	0.3971	0.3677	0.3405	0.3152
9%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224	0.3875	0.3555	0.3262	0.2992	0.2745
10%	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505	0.3186	0.2897	0.2633	0.2394
11%	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522	0.3173	0.2858	0.2575	0.2320	0.2090
12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220	0.2875	0.2567	0.2292	0.2046	0.1827
13%	0.8850	0.7831	0.6931	0.6133	0.5428	0.4803	0.4251	0.3762	0.3329	0.2946	0.2607	0.2307	0.2042	0.1807	0.1599
14%	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556	0.3996	0.3506	0.3075	0.2697	0.2366	0.2076	0.1821	0.1597	0.1401
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472	0.2149	0.1869	0.1625	0.1413	0.1229
16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538	0.3050	0.2630	0.2267	0.1954	0.1685	0.1452	0.1252	0.1079
17%	0.8547	0.7305	0.6244	0.5337	0.4561	0.3898	0.3332	0.2848	0.2434	0.2080	0.1778	0.1520	0.1299	0.1110	0.0949
18%	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704	0.3139	0.2660	0.2255	0.1911	0.1619	0.1372	0.1163	0.0985	0.0835
19%	0.8403	0.7062	0.5934	0.4987	0.4190	0.3521	0.2959	0.2487	0.2090	0.1756	0.1476	0.1240	0.1042	0.0876	0.0736
20%	0.8333	0.6944	0.5787	0.4823	0.4019	0.3349	0.2791	0.2326	0.1938	0.1615	0.1346	0.1122	0.0935	0.0779	0.0649
21%	0.8264	0.6830	0.5645	0.4665	0.3855	0.3186	0.2633	0.2176	0.1799	0.1486	0.1228	0.1015	0.0839	0.0693	0.0573
22%	0.8197	0.6719	0.5507	0.4514	0.3700	0.3033	0.2486	0.2038	0.1670	0.1369	0.1122	0.0920	0.0754	0.0618	0.0507
23%	0.8130	0.6610	0.5374	0.4369	0.3552	0.2888	0.2348	0.1909	0.1552	0.1262	0.1026	0.0834	0.0678	0.0551	0.0448
24%	0.8065	0.6504	0.5245	0.4230	0.3411	0.2751	0.2218	0.1789	0.1443	0.1164	0.0938	0.0757	0.0610	0.0492	0.0397
25%	0.8000	0.6400	0.5120	0.4096	0.3277	0.2621	0.2097	0.1678	0.1342	0.1074	0.0859	0.0687	0.0550	0.0440	0.0352

TABLE - 2 : **PRESENT VALUE OF AN ANNUITY OF RUPEE ONE**

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
5%	0.9524	1.8594	2.7232	3.5460	4.3295	5.0757	5.7864	6.4632	7.1078	7.7217	8.3064	8.8633	9.3936	9.8986	10.3797
6%	0.9434	1.8334	2.6730	3.4651	4.2124	4.9173	5.5824	6.2098	6.8017	7.3601	7.8869	8.3838	8.8527	9.2950	9.7122
7%	0.9346	1.8080	2.6243	3.3872	4.1002	4.7665	5.3893	5.9713	6.5152	7.0236	7.4987	7.9427	8.3577	8.7455	9.1079
8%	0.9259	1.7833	2.5771	3.3121	3.9927	4.6229	5.2064	5.7466	6.2469	6.7101	7.1390	7.5361	7.9038	8.2442	8.5595
9%	0.9174	1.7591	2.5313	3.2397	3.8897	4.4859	5.0330	5.5348	5.9952	6.4177	6.8052	7.1607	7.4869	7.7862	8.0607
10%	0.9091	1.7355	2.4869	3.1699	3.7908	4.3553	4.8684	5.3349	5.7590	6.1446	6.4951	6.8137	7.1034	7.3667	7.6061
11%	0.9009	1.7125	2.4437	3.1024	3.6959	4.2305	4.7122	5.1461	5.5370	5.8892	6.2065	6.4924	6.7499	6.9819	7.1909
12%	0.8929	1.6901	2.4018	3.0373	3.6048	4.1114	4.5638	4.9676	5.3282	5.6502	5.9377	6.1944	6.4235	6.6282	6.8109
13%	0.8850	1.6681	2.3612	2.9745	3.5172	3.9975	4.4226	4.7988	5.1317	5.4262	5.6869	5.9176	6.1218	6.3025	6.4624
14%	0.8772	1.6467	2.3216	2.9137	3.4331	3.8887	4.2883	4.6389	4.9464	5.2161	5.4527	5.6603	5.8424	6.0021	6.1422
15%	0.8696	1.6257	2.2832	2.8550	3.3522	3.7845	4.1604	4.4873	4.7716	5.0188	5.2337	5.4206	5.5831	5.7245	5.8474
16%	0.8621	1.6052	2.2459	2.7982	3.2743	3.6847	4.0386	4.3436	4.6065	4.8332	5.0286	5.1971	5.3423	5.4675	5.5755
17%	0.8547	1.5852	2.2096	2.7432	3.1993	3.5892	3.9224	4.2072	4.4506	4.6586	4.8364	4.9884	5.1183	5.2293	5.3242
18%	0.8475	1.5656	2.1743	2.6901	3.1272	3.4976	3.8115	4.0776	4.3030	4.4941	4.6560	4.7932	4.9095	5.0081	5.0916
19%	0.8403	1.5465	2.1399	2.6386	3.0576	3.4098	3.7057	3.9544	4.1633	4.3389	4.4865	4.6105	4.7147	4.8023	4.8759
20%	0.8333	1.5278	2.1065	2.5887	2.9906	3.3255	3.6046	3.8372	4.0310	4.1925	4.3271	4.4392	4.5327	4.6106	4.6755
21%	0.8264	1.5095	2.0739	2.5404	2.9260	3.2446	3.5079	3.7256	3.9054	4.0541	4.1769	4.2784	4.3624	4.4317	4.4890
22%	0.8197	1.4915	2.0422	2.4936	2.8636	3.1669	3.4155	3.6193	3.7863	3.9232	4.0354	4.1274	4.2028	4.2646	4.3152
23%	0.8130	1.4740	2.0114	2.4483	2.8035	3.0923	3.3270	3.5179	3.6731	3.7993	3.9018	3.9852	4.0530	4.1082	4.1530
24%	0.8065	1.4568	1.9813	2.4043	2.7454	3.0205	3.2423	3.4212	3.5655	3.6819	3.7757	3.8514	3.9124	3.9616	4.0013
25%	0.8000	1.4400	1.9520	2.3616	2.6893	2.9514	3.1611	3.3289	3.4631	3.5705	3.6564	3.7251	3.7801	3.8241	3.8593