

Q.1 (a) Multiple choice questions: (any eight)

SYBMS (Fin)

1. CAPM stands for _____
 - A. Capital amount pricing model.
 - B. Capital asset pricing model.
 - C. Capital asset printing model.
 - D. Capital amount printing model.
2. NPV is a
 - A. non- discount cash flow method
 - B. discounted cash flow method
 - C. Traditional method
 - D. No discount cash flow
3. Present value is converted into future value by _____ process.
 - A. Discounting rate
 - B. Compounding rate
 - C. Inflation rate
 - D. Deflation rate
4. Operating Leverage measures _____
 - A. business risk
 - B. financial risk
 - C. both risks
 - D. production risk
5. Cost of Capital is also known as _____
 - A. Leverage
 - B. Hurdle rate
 - C. Risk rate
 - D. Return rate
6. IRR stands for
 - A. Internal rate of return
 - B. Interest rate of return
 - C. Initial rate of return
 - D. Inclusive rate of risk
7. Beta is a measure of _____
 - A. portfolio risk
 - B. systematic risk
 - C. unsystematic risk
 - D. total risk
8. If I deposit Rs.1000 for 10 years and the rate is 10% compounded semi-annually, the future value of deposit will be
 - A. 1593.74
 - B. 2593.74
 - C. 2653.29
 - D. 1893.74
9. We include depreciation in cash flow because
 - A. It is an unavoidable cost
 - B. It involves an outflow
 - C. It reduces the tax liability
 - D. None of the above

10. _____ is a short term source of finance.

- A. Trade Credit
- B. Preference share
- C. Equity share
- D. Debentures

Q.1 (b) State whether the following Statement is True / False (Any Seven) (7)

1. The goal of the firm should be to maximize earnings per share.
2. Capital budgeting is the process of identifying, analyzing, and selecting investment projects whose cash flows will all be received within one year
3. If a company has no fixed costs, its DFL equals 1.
4. Shareholder wealth maximization means maximizing the price of the existing common stock.
5. GDR means global depository receipt.
6. NPAT + Depreciation = CFAT
7. Primary market is the market for fresh issue of shares.
8. Retained earnings is one of the source of short term finance.
9. If contribution is 30,000 and EBIT is 10,000 then OL is 0.33:1
10. Combined Leverage = OL × FL

Q.2 a) Calculate Operating Leverage and Financial Leverage from the following: (8)

	Firm X	Firm Y
1. Output (Units)	60,000	15,000
2. Fixed costs (Rs..)	40,000	14,000
3. Variable cost per unit (Rs..)	2.00	1.50
4. Interest on borrowed funds (Rs..)	40,000	8,000
5. Selling price per unit (Rs..)	6.00	5.00

Q.2 b) Calculate the weighted average cost of capital from the following: (7)

Sources of finance	Amount (Rs.)	Specific Cost %
Debt	15,00,000	5
Preference shares	12,00,000	10
Equity shares	18,00,000	12
Retained Earning	15,00,000	11
	60,00,000	

OR

Q.2 The ZBB Ltd. needs Rs. 5,00,000 for commissioning of a new plant. The following three financial plans are feasible: (15)

- a. The company may issue 50,000 equity shares of Rs. 10 per share.
- b. The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing an 8% rate of interest.
- c. The company may issue 25,000 equity shares at Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes is Rs. 1,00,000. Which alternative would you recommend and why? Assume corporate tax rate to be 50%.

Q.3 (a) Ramesh recently forecasted four economic situations which he believes are likely to occur with the given probabilities. Based on these situations, an analyst made the following forecasts of the returns of stock A (8)

	Probability	Stock A Return %
High growth	0.20	13
Low growth	0.15	16
Stagnation	0.40	32
Recession	0.25	12

Q.3 (b) A bank promises to give you Rs.1,00,000 after 3 years at the rate of 10%. How much should you deposit today? (7)

OR

Q.3 (p) The rate of return on Stock 'Axe' under different states of the economy are given below:

Particulars	Boom	Normal	Recession
1) Probability	0.35	0.15	0.50
2) Rate of Return on Stock 'Axe' (%)	20	30	40

Calculate the expected return and standard deviation. (8)

Q.3 (q) Calculate the cost of capital in the following:

X Ltd. issues 12% Debentures of face value Rs. 100 each and realizes Rs. 95 per Debenture. The Debentures are redeemable after 10 years at a premium of 10%. Income tax rate is 50%. (7)

Q.4 Ami Ltd. is considering a purchase of a machine 'X' Calculate NPV from the following information and advice about whether the machinery should be purchased or not. (15)

	Machine 'X'
Cost of machine	5,00,000
Life of machine	5 years
Cash Flows After Tax	
Year 1	20,000
Year 2	30,000
Year 3	40,000
Year 4	40,000
Year 5	45,000

The cost of capital is 10%. PV factor @10% are 0.909, 0.826, 0.751, 0.683, 0.621.

Q.4 Calculate IRR of an investment of Rs.9,00,000 which yields the following cash inflows after tax as follows: (15)

Year	Cash Inflows (in Rs.)
1	3,00,000
2	2,00,000
3	2,50,000
4	2,00,000
5	3,50,000

Use 12% and 14% discounting rate.

Note: The P.V Factors are:

Year	P.V at 12%	P.V at 14%
1	0.893	0.877
2	0.797	0.769
3	0.712	0.675
4	0.636	0.592
5	0.567	0.519

Q.5 (a) Explain the functions of finance manager. (8)

(b) Operating leverage vs Financial Leverage (7)

OR

Q.5 Write short note on (any three): (15)

1. Sources of short term finance
2. Preference shares
3. Need for foreign capital
4. Financial Leverage
5. Types of Risk