24/3/14 MN3AAR

FyAF
Fin. mgmt

Time : 2 hours **Maximum marks :60**

Instructions

1. Solve all questions after exercising internal options.

2. All questions carry equal marks.

Q no. 1 **5 marks each**

(a) A company pays a dividend of Rs. 15 annually. The capitalization rate is 10 %. Determine the price of share using Zero growth model.

(b) Delta Ltd intends to pay cash dividend of Rs. 15 per share. It has average growth rate of 5% p. a. in dividends. The required rate of return of an investor who intends to purchase a share is 10 % p.a.. Determine the present value of equity share using Constant growth model.

(c) If the current price of a share is Rs. 400 and annual dividend is Rs. 20 ; determine the yield on preference share.

OR

Q no. 1 **15 marks**

Satra Ltd. Issues 20,000 preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate the cost of preference share issued at

(a) at par

(b) at a premium of 10 %

(c) at a discount of 15 %.

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Q no. 2 (a) **6 marks**

Following is the capital structure of a firm

Particulars	Amount in Rs
Equity share capital	25,00,000
Retained earnings	5,00,000
Preference share capital	10,00,000
Term loans	20,00,000

The firms after tax component cost of various sources of finance are as follows :

Sources of finance	Cost of Capital
Equity share capital	10 %
Retained earnings	9 %
Preference Share capital	8 %
Term loans	15 %

You are required to calculate the firm's weighted average cost of capital.

(b) **9 marks**

A deposit of Rs. 10,00,000 is made to earn interest @ 10 % per annum. Find out the future value of this deposit if the compounding period is

(i) Annually

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(ii) Half Yearly

(iii) Quarterly

OR

Q no. 2 **15 marks**

The cash flow streams of two alternative investments are as follows:

Year	Alpha (Rs)	Beta (Rs)
0	(14,00,000)	(14,70,000)
1	3,50,000	5,60,000
2	5,60,000	4,20,000
3	7,00,000	5,60,000
4	5,60,000	4,20,000
5	4,20,000	5,60,000

The present value factors at the discount rate of 11 % is as follows :

Year	Present value factors
1	0.901
2	0.812
3	0.731
4	0.659
5	0.593

You are required to calculate the Net present value and Profitability Index. C recommendations for selecting a project.

Q no. 3

15 marks

Arrow Ltd. can make investments in either of two investments Project A or Project B. Assuming a required rate of return of 10 % , calculate for each project Payback period and Discounted Payback Method. You may assume straight line method for calculating depreciation.

Cost for Project A is Rs. 10,50,000 and expected life is 5 years with no salvage value.

Cost for Project B is Rs. 14,70,000 and expected life is 5 years with no salvage value.

The estimated net profit after depreciation and tax alongwith a discount factor @ 10 % is as given below

Year	Project A Rs.	Project B Rs.	Present value factor
1	52,500	1,26,000	0.909
2	52,500	1,26,000	0.826
3	1,05,000	1,26,000	0.751
4	1,05,000	1,26,000	0.683
5	1,05,000	1,26,000	0.621

You are required to recommend which project should the company select .

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OR

Q no. 3 **15 marks**

Sagar Ltd. is considering two projects sun and moon for investment. Both the projects have cost of Rs.10,50,000 and a useful life of 5 years with no scrap value. Depreciation is to be calculated by straight line method.

The future cash inflows from the projects are as follows:

Year	Project sun Rs.	Project moon Rs.	PV Factor @ 10 %
1	1,83,750	6,19,500	0.91
2	4,20,000	3,15,000	0.83
3	4,72,500	2,10,000	0.75
4	3,93,750	73,500	0.68
5	1,05,000	68,250	0.62

You are required to calculate Average rate of return , Net present value and Profitability Index . Recommend which project is to be selected.

Q no. 4 Explain the following concepts **3 marks each**

(i) Finance and Accounting

(ii) Traditional approach to Finance

(iii) Returns

(1v) Zero Growth model

(v) Payback method

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OR

Q no. 4 Answer any 3 out of 5 **5 marks each**

(i) What is Wealth Maximization approach ? Explain.

(ii) What are the Objectives of Financial Management ?

(iii) What is Cost of capital ? what are its uses?

(iv)Explain the investment and financing decision as per modern approach to Financial Management.

(v) What are the different types of Preference shares issued by a company? Explain.

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