

[Time: 3.00 Hrs]

[Marks: 75]

Please check whether you have got the right question paper.

Instructions :

1. Q1 (20 marks) & Q8 (15 marks) are compulsory.
2. Attempt Any Four (40 marks) out of Q2, Q3, Q4, Q5, Q6 and Q7.
3. Students have to attempt any four out of the remaining six questions and within each question; students have to attempt any one out of two sub – questions. Each sub – question would carry 10 Marks.
4. Figures to the right indicate full marks.
5. Draw neat diagrams wherever necessary.

Q.1 Read and attempt the following:**(A) Multiple choice question.**

10 Marks

1. Retained earnings are _____.

- A) Internal sources of funds
- B) External sources of funds
- C) Both
- D) None of the above

2. Liquid Ratio is equal to liquid assets divided by _____.

- A) Current Liabilities.
- B) Total Liabilities.
- C) Contingent Liabilities.
- D) Non-Current Liabilities.

3. Financial leverage can be measured in _____.

- A) Stock term.
- B) Flow term.
- C) Both (a) and (b).
- D) None of these

4. Long term finance is required for _____.

- A) Current assets.
- B) Fixed assets.
- C) Intangible assets.
- D) None of these.

5. Which of the following is the term that describes the amount of time taken for a capital budgeting project to recover its initial investment?

- A) Investment period
- B) Redemption period
- C) Payback period
- D) Maturity period

6. Which of the following is true for a project with a shorter payback period?

- A) The project will have a lesser risk

- B) The project will have less Net Present Value
- C) The project will have more Net Present Value
- D) The project will have a greater risk

7. Which of the following decisions affects the size of assets, the profitability and competitiveness of a firm?

- A) Dividend decision
- B) Working capital decision
- C) Capital Budgeting decision
- D) None of the above

8. Which of these is not a part of Capital Structure?

- A) Equity Shares
- B) Debentures
- C) Short-term borrowings
- D) Bonds

9. The process of financing the assets of a business is known as:

- A) Asset Structure
- B) Owners Structure
- C) Financial Structure
- D) Capital Structure

10. Working Capital is the _____.

- A) Capital borrowed from the Banks.
- B) Difference between Current Assets and Current Liabilities.
- C) Difference between Current Assets and Fixed Assets.
- D) Cash and Bank Balance

(B) State whether True or false.

10 Marks

1. Financial management is concerned with the maintenance and creation of wealth.
2. If a project has an NPV greater than zero, then taking on the project will increase the value of firm's stock.
3. Under mutual exclusive project, we can choose both projects.
4. Requirement of working capital does not depend on any factor.
5. According to the NOI approach, a firm can increase its total valuation and lower its cost of capital as it increases the use of financial leverage.
6. The lower a firm's cost of capital, k_0 , the higher the total valuation of the firm.
7. Cash dividends and earnings retention have a reciprocal relationship.

8. Two firms X and Z, have the same EBIT, but X has a Rs. 50,00,000 annual debt-service burden and Z has a Rs. 20,00,000 annual debt-service burden. The probability of cash insolvency is greater with X than with Z.
9. A firm has a DOL (at a certain level of output) of 1.75 and a DFL of 2. The degree of total leverage for the firm is 3.5.
10. The net present value of a project generally decreases as the required rate of return increases.

Q.2 Attempt any one of the following:

10 Marks

(A) The Balance sheet of Punjab Auto Ltd as on 31st December, 2002 was as follows: From the below info compute:

i) Current Ratio ii) Quick Ratio iii) Debt Equity Ratio iv) Proprietary Ratio

Liabilities	Rs.	Assets	Rs.
Equity share capital	40,000	Plant	24,000
Capital reserve	8,000	Land & Building	40,000
8% loan on mortgage	32,000	Furniture	16,000
Creditors	16,000	Stock	12,000
Bank O/D	4,000	Debtors	12,000
Taxation	8,000	Short term investment	4,000
Profit and loss A/c	12,000	Cash in hand	12,000
Total	120,000	Total	120,000

(B) Assume that ABC Inc is considering two projects namely Project X and Project Y and wants to calculate the NPV for each project. Both project X and project Y is four-year project and cash flows of both the projects for four years are given below:

Year	Project A Cash Flows	Project B Cash Flows
1	\$ 5000	\$ 1000
2.	\$ 4000	\$ 3000
3	\$ 3000	\$ 4000
4.	\$ 1000	\$ 6750

The firm's cost of capital is 10% for each project and the initial investment amount is \$ 10,000.

Calculate-

- a) Payback period
- b) Discounted payback period
- c) Net present value
- d) Profitability Index

Q.3 Attempt any one of the following:

10 Marks

(A) Compute the value of the firm, value of shares and average cost of capital from the following information:

Net Operating Income	Rs. 2,00,000
Total investment	Rs. 10,00,000
Equity Capitalization Rate, If:	
Firm uses no debt	10%
Firm uses Rs. 4,00,000 as debt	11%
Firm uses Rs. 6,00,000 as debt	15%

Assume that Rs. 4,00,000 debts can be raised at 5% and Rs. 6,00,000 can be raised at 7% rate of Interest.

(B) Explain Working Capital Operation Cycles.

Q.4 Attempt any one of the following:

10 Marks

- (A) Describe factor affecting Capital Structure Decisions.
- (B) Explain Long Term Source of Finance.

Q.5 Attempt any one of the following:

10 Marks

- (A) What do you mean by capital budgeting? Explain different types of investment projects.
- (B) State different types of financial statements and state its components.

Q.6 Attempt any one of the following:

10 Marks

- (A) Explain liquidity ratio in details.
- (B) Difference between pay back period and discounting pay back period.

Q.7 Attempt any One of the following:

10 Marks

- (a) Explain Walter model of Dividend Policy?
- (b) Explain Gordon's Dividend Capitalization Model?

Q.8 Write short notes on Any two the following:

15 Marks

- (A) CURRENT RATIO
- (B) IRR

- (C) Operating leverages
- (D) Net working capital
