

2. सभी प्रश्नों के उत्तर दीजिए ।
3. सभी प्रश्नों के अंक समान हैं ।
4. साधारण कैलकुलेटर के उपयोग की अनुमति है ।
5. इस प्रश्न-पत्र का उत्तर अंग्रेजी या हिंदी किसी एक भाषा में दीजिए, लेकिन सभी उत्तरों का माध्यम एक ही होना चाहिए ।

1. (a) Why is it inappropriate to seek profit maximization as the goal of financial management? How would you justify the adoption of wealth maximization as an apt substitute for it? (8)

(b) A person wants to award a scholarship of Rs. 1000/- per year for the next 10 years. The first scholarship will be awarded after the end of one year and thereafter the amount of scholarship will grow at the rate of 5% per year to offset inflation. Find the sum to be invested now for this scholarship if the rate of interest is 10%. (7)

**OR**

(a) "Cash flows occurring at different points of time are not comparable". Explain the reasons and how can they be made comparable. (8)

- (b) A 4-year annuity of Rs. 3000/- per year is deposited in a bank account that pays 9% interest compounded yearly. The annuity payments begin in year 12 from now. What is the future value of the annuity? (7)

The Compounded Value Annuity factors at 9% are :

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
CVA factor at 9%	1.00 0	2.09 0	3.27 8	4.57 3	5.98 5	7.52 3	9.20 0	11.0 28	13.0 21	15.1 93	17.5 60	20.1 41	22.9 53	26.0 19	29.3 61	33.0 03

2. ABC Ltd. is considering the introduction of a new product. It is estimated that profits before depreciation would increase by Rs. 1,20,000/- each year for first four years and Rs. 60,000/- each for the remaining period. An advertisement cost of Rs. 20,000/- is expected to be incurred in the first year, which is not included in the above estimate of profits. The cost will be allowed for tax purpose in the first year.

A new plant costing Rs. 2,00,000/- will be installed for the production of the new product. The salvage value of the plant after its life of 10 years is estimated to be Rs. 40,000/-. A working capital investment of Rs. 20,000/- will be required in the year of installation

of the plant and a further Rs. 15,000/- in the following year. The company's tax rate is 30% and it claims written down value depreciation at 33.33%. If company's required rate of return is 20%, should the company introduce the new product on the basis of net present value? Ignore tax effect on Profit/Loss on sale of asset.

The Present Value factors at :

Year	1	2	3	4	5	6	7	8	9	10
PV factor at 10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
PV factor at 20%	0.833	0.694	0.579	0.482	0.402	0.335	0.279	0.233	0.194	0.162

(15)

**OR**

(a) Discuss the reasons for conflicting ranking under NPV head IRR techniques. Which method is preferable and why? (8)

(b) A company is considering a proposal of installing a drying equipment. The equipment would involve a cash outlay of Rs. 6,00,000/- and net working capital of Rs. 80,000/-. The expected life of the project is 5 years without any salvage value. Working capital is to be realized in last year.

Assume that company is allowed to charge depreciation on straight-line basis for income tax purpose. The estimated before tax and deprecation cash inflows are given below :

Year	1	2	3	4	5
Cash Inflows	Rs.2,40,000	Rs.2,75,000	Rs.2,10,000	Rs.1,80,000	Rs.1,60,000

The applicable income-tax rate to the Company is 35%. If the company's opportunity cost of capital is 12%, calculate the equipment's Payback Period, Net Present Value and . Also advice the Company regarding installation of the Equipment. (7)

The Present Values factors at 12%, 14% and 15% are :

Year	1	2	3	4	5
PV factor at 12%	0.8929	0.7972	0.7118	0.6355	0.5674
PV factor at 14%	0.8772	0.7695	0.6950	0.5921	0.5194
PV factor at 15%	0.8696	0.7561	0.6575	0.5718	0.4972

3. (a) Why is the cost of Debt is generally lower than the cost of equity? (8)

(b) The share capital of a company is Rs. 10,00,000 with shares of face value of Rs. 10. The company

has debt capital of Rs. 6,00,000 at 10% rate of interest. The sales of the firm are 3,00,000 units per annum and the selling price of Rs.5 per unit and the variable cost is Rs. 3 per unit. The fixed cost amounts to Rs. 2,00,000. The company pays tax at 35%. If the sales increased by 10%, calculate :

- (i) Percentage increase in EPS;
- (ii) Degree of operating leverage at the two levels; and
- (iii) Degree of financial leverage at the two levels. (7)

**OR**

- (a) Discuss the concept of trading on equity in detail. (8)
- (b) A-One Ltd. has the following capital structure :

Equity share capital (2,00,000 shares)	Rs.40,00,000
6% Preference shares	Rs.10,00,000
8% Debentures	Rs.30,00,000
Total	Rs.80,00,000

The market price of company's equity share is Rs. 20. It is expected that company will pay a

dividend of Rs. 2 per share at the end of current year, which will grow at 7% for ever. The tax rate is 30%. You are required to calculate the weighted average cost of capital using book value weights and market value weights. (7)

4. (a) Critically evaluate the Net Income and Net Operating Income approach to capital structure. (8)

(b) Companies U and L are identical in every respect except that the former does not use debt in its capital structure, while the latter employs Rs. 6,00,000/- @ 15% debt. Assuming that (i) all the Modigliani-Miller (MM) approach assumptions are met, (ii) the corporate tax rate is 30%, (iii) the EBIT is Rs. 2,00,000/-, and (iv) the equity capitalization of the unlevered firm is 20%, what will be value of the firms, U and L? Also determine the weighted average cost of capital for both the firms. (7)

**OR**

(a) From the following information, ascertain whether the firm is following an optimal dividend policy as per Walter Model?

Total Earnings	Rs. 2,00,000/-
Number of equity shares (Rs. 100/- each)	20,000
Dividend paid	Rs. 1,50,000/-
Price/Earnings Ratio	12.5

The firm is expected to maintain its rate of return on fresh investment. Also find out what should be the P/E ratio at which the dividend policy will have no effect on the value of the share? (8)

- (b) From the following data, compute the duration of the operating cycle for each of the two years and comment on the increase/decrease :

	Year 1 (Rs.)	Year 2 (Rs.)
Stock:		
Raw Materials	20,000	27,000
Work-in-progress	14,000	18,000
Finished Goods	21,000	24,000
Purchases	96,000	1,35,000
Cost of Goods Sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Creditors	32,000	50,000
Debtors	16,000	18,000

Assume 360 days per year for computational purposes. (7)

5. (a) Explain the Baumol's model of cash management in detail. (8)
- (b) What do you understand by the optimum dividend policy of the Firm? (7)

OR

Write short notes on any **three** :

(a) Gross & Net Working Capital

(b) Indifference point

(c) Arbitrage process

(d) Economic Order Quantity (EOQ)

(e) Net float

(5 Marks Each)

1. (अ) वित्तीय प्रबंधन के लक्ष्य के रूप में अधिकतम लाभ की तलाश करना अनुचित क्यों है? इसके उपयुक्त विकल्प के रूप में धन अधिकतमकरण को अपनाने को आप किस प्रकार उचित ठहराएंगे? (8)

(ब) एक व्यक्ति अगले 10 वर्षों के लिए 1000/- रुपये प्रति वर्ष की छात्रवृत्ति देना चाहता है। पहली छात्रवृत्ति एक वर्ष के अंत