2019

Your Roll No. ....

MHROD / IV Sem. **A**

Course 644— FINANCE FOR DECISION MAKING

Time : 3 hours *Maximum Marks* : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt all questions. All questions carry equal marks.

1. It is observed that the objective of financial management is different from that of Accounting. Explain the statement while drawing a comparison between financial management, accounting and management accounting. (14)

OR

What do you understand by the concept of Risk and Return? Discuss the types and sources of risk which need to be addressed in any business organization. (14)

2. A Ltd requires an initial investment of Rs 80,000. The estimated net cash flows are as follows:

Year	1	2	3	4	5	6	7	8	9	10
Net cash Outflow	14000	14000	14000	14000	14000	16000	20000	30000	20000	8000

Using 10% as the cost of capital determine Payback period, Net Present Value and Internal Rate of Return. Advice the company, whether to go ahead with this investment proposal or not. (14)

OR

a. What do you understand by the concept of Leverage? What are Financial and operating leverage and how do they affect the value of a firm? (6)

b. X corporation has estimated that for a new product its breakeven point is 2000 units if the items is sold for Rs 14 per unit; the cost accounting department had identified variable cost of Rs 9 per unit. Calculate the degree of operating leverage at the sales volume of 2500 units and 3000 units and their difference, if any? (8)

3. (a) "Retained earnings are free of cost source of funds." Comment. (7*2=14)

(b) The company issues a 14% Preference shares for 10 years having face value of Rs 100, floatation cost 5%. Find the cost of preference capital for the company.

Or

(a) What will be the cost of debt, if the 15% Debentures are issued for a face value of Rs 1000 to be redeemed after 10 years. The debenture is expected to be sold at a discount of 5%, floatation cost of 2.5%. Also find if there is any impact of levying 35% tax on the cost of Debt?

(b) A firm has an investment proposal costing Rs 1,20,000 with useful economic life of 4 years over which it is expected to generate cash inflows of Rs 40,000 at the end of each year for next 4 years. The rate of reinvestment is 8% and that of return is 10%. Find the Net Terminal Value and suggest whether to invest in this alternative or not.

4. Attempt any two of the following: (7*2=14)

(a) Assuming that the rate of return expected by the investor is 11%; internal rate of return is 12%; and earnings per share is Rs 15, calculate price per share by the 'Gordon Approach' method if dividend payout ratio is (i) 10% and (ii) 30%.

(b) Das Auto Ltd has outstanding 1,20,000 shares selling at Rs 20 per share. The company hopes to make a net income of Rs 3,50,000 during the year ended 31st March, 2011. The company is considering to pay a dividend of Rs 2 per share at the end of current year. The capitalization rate has been estimated to be 15%. Assuming no taxes, what will be the price of a share at the end of 31st March, 2011, if the dividend is paid and if the dividend is not paid as per Modigliani Miller Dividend Valuation Model?

(c) The following is the capital structure of ABC Ltd.

Source	Amount in Rs	Cost of capital
Equity share capital (2,00,000 shares @ Rs 10 per share	20,00,000	11%
Preference share capital (50,000 shares of Rs 10 each)	5,00,000	8%
Retai9ned Earnings	10,00,000	11%
7.5 % Debentures of Rs 1000 each	15,00,000	4.5%

Presently, the debentures are being traded at 94%, preference shares at par and equity shares at Rs 13 per share. Find out the WACC based on book value weights and market value weights.

5. Write brief Notes on any four of the following: (3.5*4=14)
   a. Capital Asset Pricing Model
   b. Net Income Approach
   c. Modigliani Miller Hypothesis of Capital Structure
   d. Factors determining Working Capital requirement.
   e. Types of Debt market instruments.
   f. Cash cycle *vs*. Operating cycle.