1. (a) "Financial management encapsulates managerial decision making on assets mix, capital mix and profit allocation." Explain this statement. (6)

(b) If you want to accumulate ₹50,000 in four years and can earn an interest rate of 8%, what amount should you invest today? (3)

(c) Following information is available for Lana Del Rey Limited:

Degree of Operating Leverage	3:1
Degree of Financial Leverage	3.42857:1
Degree of Combined Leverage	10.28571:1
Interest	₹4,00,000
Contribution Margin	40%
Tax rate	40%
10% preference share capital	₹10,00,000

Prepare income statement of the company. (9)

OR

(a) "The criterion of profit maximization for financial decision-making is operationally feasible." Explain giving arguments whether this statement is true or false? (6)

(b) You have a choice between ₹2,00,000 now and ₹6,00,000 after 8 years and the interest rate is 10%. Which would you choose? What does your preference indicate? (3)

(c) Company X and Company Y are in the same risk class and identical in all respects except that Y uses debt of ₹6,00,000 carrying an interest of 15% whereas X is an all-equity firm. Both companies earn a return of 20% on their assets of ₹10,00,000.

(i) Calculate the value of both the companies and their overall cost of capital under the net income approach taking cost of equity as 18%.

(ii) Calculate value of both the companies and equity capitalization rate using Net Operating Income approach taking overall cost of capital as 18%.

(iii) Compare the results and comment on the differences. (3+3+3)

2. (a) Techline Industries is considering whether to replace an existing machine that was purchased three years ago for ₹20,00,000. The current machine has a remaining useful life of five years with no residual value at the end, but it can be

sold now for ₹12,00,000. Maintenance costs for the existing machine are expected to increase by ₹1,00,000 annually starting in its sixth year.

An alternative, more efficient machine is available for ₹30,00,000 and would have a resale value of ₹12,00,000 at the end of its five-year life. This new machine is projected to enhance annual revenue by ₹3,00,000 and reduce operating costs by ₹2,00,000 each year. With a tax rate of 50% and a 10% cost of capital, Techline Industries follows the straight-line depreciation method. Compute the relevant cashflows and Net Present Value (NPV). Should the company proceed with replacing the machine? (10+3+2)

(b) How can you overcome the shortcomings of Pay-Back Period (PBP) technique? (3)

OR

(a) Adele Ltd is evaluating investment opportunities in two mutually exclusive projects involving different cash outflows. The details are as follows :

Year	X	Y
0	(-) ₹3,20,000	(-) ₹9,60,000
1	2,08,000	5,60,000
2	2,40,000	7,20,000

The firm evaluates its investment decision using a discount rate of 10%. Evaluate Projects using Net Present Value (NPV) and Internal Rate of Return (IRR). Also comment on selection of the project. (4+4+4)

(b) Explain the following techniques of Capital Budgeting : (3×2)

(i) Profitability Index (PI)

(ii) Accounting Rate of Return (ARR)

3. (a) Why are market-value weights superior to book-value weights? (3)

(b) A semi-conductor manufacturing company wishes to determine the weighted average cost of capital for evaluating capital budgeting projects.

Balance sheet as on 31st March, 2024

Liabilities	₹	Assets	₹
Short-term Loan	13,50,000	Assets	68,00,000
Debentures	13,50,000		
Preference shares	9,00,000		
Equity shares	24,00,000		
Retained earnings	8,00,000		
	68,00,000		68,00,000

External financing information :

(i) 10 years, 10% debentures of ₹2500 face value, redeemable at 5% premium, sold at par.

(ii) 10% preference shares: sale price ₹100 per share, 2% flotation cost.

(iii) Equity shares: Sale price ₹200 per share. Flotation cost would be ₹5 per share.

(iv) Corporate tax rate is 30% and expected equity growth is 5% per year. The expected dividend at the end of financial year is ₹15 per share.

Calculate the weighted average cost of capital (WACC) for the company using book-value weights. (3+2+3+2+5)

OR

(a) Assume that there are two firms, L and U, in the market. Both firms are identical in all respects except that firm L has 10%, ₹10,00,000 Debentures. The operating profit of both the firms is ₹2,00,000. The equity capitalization rate (k_e) for the firm L is 16% and 12.5% for the firm U.

Calculate the value of the firms and explain how under Modigliani-Miller Approach, an investor Taylor Swift who own 10% equity shares of the overvalued firm will be better off by switching his holding to the other firm. Also explain when this process will come to an end. (3+6+3)

(b) Comment on the following :

(i) Retained earnings is free of cost.

(ii) Debt is the cheapest source of finance.

(3+3)

4. (a) Burnham Limited belongs to a risk class for which the approximate capitalization rate is 10%. It currently has outstanding 75,000 shares selling at ₹100 each. The firm is contemplating the declaration of a dividend of ₹15 per share at the end of the current financial year. It expects to have a net income of ₹5,00,000 and has a proposal for making new investments of ₹9,00,000. Show that under the Modigliani-Miller assumptions, the payment or non-payment of dividend does not affect the value of the Burnham Limited. (12)

(b) Explain the "the bird in hand argument" in the context of dividend theories. (6)

OR

(a) Earning per share of Rodrigo Limited is ₹10. Calculate the price of share using Walter Model if the dividend per share (i.e. DPS) is ₹0, 5, and 10. What should be the dividend policy of the company if the rate of return (r) is 8%, 10%, and 15% and cost of equity (k_e) is 10%. (12)

(b) Explain any six determinants of dividend policy of a company. (6)

5. (a) Following figures relate to Lord of the Spices Limited—

Sales at three months' credit	₹9,00,000
Material consumed (Suppliers extend 1½ month's credit)	₹22,50,000
Wages (One month in arrear)	₹18,00,000
Manufacturing expenses outstanding at the end of the year (Cash expenses are paid one month in arrear)	₹2,00,000
Total administrative expenses for the year (Cash expenses are paid one month in arrear)	₹6,00,000
Sales promotion expenses (Paid quarterly in advance)	₹12,00,000

The company sells its product on gross profit of 25% assuming depreciation as a part of cost of production. It keeps two months' stock of finished goods and one month's stock of raw material. It keeps cash balance of ₹2,50,000. Assume a 5% safety margin of required (or final) working capital, work out the working capital requirement of the Lord of the Spices Limited on cash cost basis. Ignore work-in-progress. Give working notes for the calculation of cost of production and cost of sales/total cost. (15)

(b) Explain the concept of permanent and temporary working capital. (3)

OR

(a) Bhandari Ltd. has annual sales of ₹24,00,000. The selling price per unit is ₹10 and the variable cost is 70% of the selling price. The rate of return on investment is 20%, Average Cost ₹9 per unit; annual collection expenditure, ₹50,000 and percentage of default, 3%; credit terms, 2 months. The company is considering the change in credit policy by following Programme A or Programme B.

Particulars	Programme	
	A	B
Average Collection Period (months)	1.5	1
Annual Collection Expenditure (₹)	75,000	1,50,000
Percentage of default (₹)	2	1

Determine which collection programme the company should follow. (12)

(b) Explain hedging (matching), conservative, and trade-off (balancing) approaches regarding financing of working capital. (6)