1. (a) "Wealth maximisation is a better criterion than Profit maximisation" Do you agree? Explain. (4)

(b) An investor deposits a sum of ₹2,00,000 in a bank account on which interest is credited @ 10% p.a. How much amount can be withdrawn annually for a period of 15 years? (5)

Or

(a) What is meant by the phrase "present value of a future amount"? How are the present values calculated? (4)

(b) A finance company makes an offer to deposit a sum of ₹11000 and then receive a return of ₹800 p.a. perpetually. Should this offer be accepted if the rate of interest is 8%? Will the decision change if the rate of interest is 6%? (5)

2. (a) Why is it possible for IRR and NPV methods to result in different ranking of investment proposals? Which will you prefer in which situation and why? (6)

(b) ACC Ltd. has a machine which was purchased five years ago for Rs. 10,00,000 has a book value of Rs. 4,00,000 and has remaining useful life of five years. A new machine costing Rs. 20,00,000 is available. It has the same capacity as that of old machine but will result in saving of variable cost to the extent of Rs. 7,00,000 per annum. The

new machine also has a life of five years after which it can be disposed of for Rs. 2,00,000. The income tax rate is 40% applicable on both revenue as well as capital income and the expected return on investment is 12% p.a. The old machine, if sold today, will realize Rs. 1,00,000 and is not going to have any salvage value five years from now. Straight line method of depreciation is to be used. Advise if the company should replace the old machine with the new one or not? (12)

Or

(a) "The Payback period is more a method of liquidity rather than profitability". Explain the statement explaining payback method of capital budgeting. Also explain how discounted Payback period is an improvement over traditional payback period method? (6)

(b) The management of a company has two alternative proposals under consideration. Project A involves a capital outlay of Rs. 12,00,000 while Project B involves a capital outlay of Rs. 18,00,000. Both are estimated to generate cash flows for five years. Cash flows for Project A are Rs. 4,00,000 per annum and for Project B are Rs. 5,80,000. The cost of capital is 10%. Determine which of the two projects should be selected on the basis of:

(i) Net Present Value method; and

(ii) Profitability Index method.

In case of conflict, which criteria should be followed and why? (12)

3. (a) Star. Ltd. and Bucks Cafe. Ltd. are in the same risk class and are identical in all respects except

that company Star uses debt while company Bucks Cafe does not use debt. The levered firm has ₹11,00,000 debentures carrying 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹20 lakhs. Both companies have same capitalisation rate of 15% on all equity shares. You are required to compute the value of Star Ltd. and Bucks Cafe Ltd. using Net Income approach. (9)

(b) Lens kart company has the following capital structure on 1 July 2023 :

Equity Shares (4,00,000)	₹ 90,00,000
10% Preference Shares	20,00,000
10% Debentures	60,00,000
	1,70,00,000

The share of a company currently sells for ₹25. It is expected that the company will pay a dividend

of ₹2.50 per share which will grow at 7 percent forever. Assume a 30 percent tax rate. You are required to compute a weighted average cost of capital on existing capital structure. (9)

(c) Why must the finance manager keep in mind the degree of financial leverage in evaluating various financing plans? When does financial leverage become favourable? Explain the purpose of measuring operating leverage is different from that of financial leverage. (9)

Or

(a) Explain the Traditional approach and Net Operating Income approach to Capital Structure. (9)

(b) The following information is available in respect of two firms, Arti Ltd. and Bharti Ltd. :

(Figures in Lacs)		
	Arti Ltd.	Bharti Ltd.
Sales	1000	2000
—Variable Cost	500	1000
Contribution	500	1000
—Fixed Cost	150	400
EBIT	350	600
—Interest	50	100
Profit before Tax	300	500

You are required to calculate different leverages for both the firms and also comment on their relative risk position. (9)

(c) Bajaj Limited has the following capital structure:

Particulars	Rs.
Equity share capital (2,00,000 shares)	50,00,000
6% Preference shares	10,00,000
8% Debentures	30,00,000
	90,00,000

The market price of the company's equity share is Rs. 200. It is expected that company will pay a dividend of Rs. 2 per share at the end of current year, which will grow at 8 percent for ever. The tax rate is 30 percent. You are required to compute a weighted average cost of capital on existing capital structure. And find out the cost of preference share capital if the preference shares are redeemable after 15 years at a premium of 10%. (9)

4. (a) Explain Gordon's Model of Dividend decision. What are its assumptions? Is the value of firm affected by its dividend policy as per this model? (6)

(b) As per MM approach the payment of dividend does not affect the value of firm. Use the data given below to prove this statement.

Number of outstanding shares	50,000
Earnings per share	Rs. 10
K_e	10%
P_0	Rs. 100
Expected dividend per share	Rs. 5
New Investment	Rs. 10,00,000

(12)

Or

(a) What do you mean by stability of dividend? Why do firms follow a policy of stable dividend? (6)

(b) The following information is collected from the LMN Ltd:

Number of equity shares	Rs. 6,00,000
Earning of Firm	Rs. 36,00,000
Return of Investment	22.5%
Cost of Equity	15%

As per Walter model, (i) What would be the optimum dividend payout ratio? Determine the market price of shares at the (ii) Dividend payout ratio is zero and (iii) Dividend payout ratio is 100%. And (iv) What would be the dividend payout ratio, if share price is Rs. 50. (12)

5. (a) Discuss the consequences of lengthening and shortening of the credit period by a firm. (6)

(b) M/s Anil and Co. approached their bankers for their working capital requirements. Find out the working capital required by the company based upon the following projections –

Annual Sales -	Rs. 14,40,000
Cost of Production -	Rs. 12,00,000
Raw Material Purchases -	Rs. 7,05,000
Anticipated Opening Stock of Raw Material -	Rs. 1,40,000
Anticipated Closing Stock of Raw Material -	Rs. 1,25,000
Inventory Norms –	
Raw Material -	2 Months
Work in Progress -	15 days
Finished Goods -	1 Month

The firm enjoys a credit of 15 days on its purchases and allows one month credit on its sales. There is an advance of Rs. 15000 received by the company on sales order. (12)

Or

(a) What do you mean by Working Capital? Discuss the determinants of working capital needs of the firm. (6)

(b) A company sells a product @ Rs. 300 per unit with a variable cost of Rs. 200 per unit. The fixed cost amounts to Rs. 6,25,000 per annum and the total annual sales are Rs. 75,00,000. The company extends one-month credit to its customers. It is estimated that if the present credit facility of one month is doubled to two months, the sales are estimated to reach a level of Rs. 81,00,000 annually. The company expects a return on investment of at least 20% prior to taxation. Justify by calculation that this change in policy is beneficial for the company. (12)