Navrachana University

SBL - MBA

Mid-Semester Examination Mar-2017

FY – SEM II

Financial Management (FA 102)

Date: 8-May-2017 | **Marks: 40**

Time: 1.00 – 3.00 PM | ***OPEN BOOK EXAM***

Q1) Fill in the blanks in the following. For other statements mention True or False. If the statement is false, provide the correct statement. (20 Marks)

i) _________ evaluation criteria for Capital budgeting is consistent with the goal of Wealth Maximization of owners. (IRR, PI, ARR, NPV)

ii) The _______ is a technique of capital budgeting that shows the percentage return on investment but does not consider time value of money. (Pay Back, IRR, ARR, NPV)

iii) The Profitability Index of project A is 0.95 (@ 10% Discount Factor). The NPV @ 10% for project A would be __________ zero. (greater than, less than, equal to)

iv) A Zero Debt (Debt Free company) is free from Operating risk.

v) Indifference point is that level of EBIT at which the EPS of company is zero and if achieves financial break even at shareholder's level.

vi) To control (reduce) the Financial risk of the business, less use of Equity Capital in the capital structure is advisable.

vii) DCL = % Change in EPS / % Change in EBIT

viii) It is not possible to eliminate the 'Financial Risk' for a business entity.

ix) If the economy is expected to perform well the leverage will work to reduce the returns available to the owners or shareholders.

x) A project with an initial investment of Rs. 6.5 lakhs and project life of 3 years is expected to have annual cash inflows of Rs. 3 lakhs for the coming three years. The Payback Period of the project is ______ years.

Q2) Sunrise Ltd. , a company in infrastructure sector is planning for expansion. The company has a choice of raising an additional sum of Rs 50 lakh using following financing plans:

i) Issue of 10 percent debentures
ii) Issue of additional equity shares of Rs. 50 per share.

The current capital structure of the company consists of 10 lakh ordinary shares. The tax rate for the company is 35%.
At what level of earnings before interest and tax (EBIT) after the new capital is required, would earnings per share (EPS) be the same whether new funds are raised by issuing ordinary shares or by issuing debentures? (7 Marks)

Also mention over what range of expected EBIT, it would be more advantageous to issue debentures rather than issuing shares. (3 Marks)

Q3) A company is considering an investment in a project with an initial cash outlay Rs. 1,00,000 The cost of capital is 12% . The expected cash inflows of the project are as follows:

YEAR	CASH FLOW
1	20000
2	30000
3	40000
4	30000
5	30000

Calculate the NPV (2 marks), IRR (5 marks) and PI (2 marks) of the above project and give your comment regarding acceptability of the project.