

CODE : GUATEMALA

Time : 2 Hrs.

Marks : 60

- Instructions :- I) Attempt all Questions.
II) All questions carry equal marks.
III) Figures to right indicate full marks.

- Q.1** A company is considering a project with an initial outlay of Rs.60,000 comprising of machinery worth Rs.50,000 and balance towards working capital exclusively for this project i.e. Rs.10,000. The entire amount can be borrowed at the cost of 12% p.a. The machinery can be used for 5 year. at the end of which there is no salvage value. It can be assumed that the machinery is depreciated on SLM basis for tax purposes, the tax rate being 30%. **15**

Evaluate whether the project is viable under NPV method. Also calculate the Payback period, Average Rate of Return & Profitability Index for the project. Net Profit before Depreciation and Tax is Rs. 70,000. (PVF @ 12% for 5 years is 0.893, 0.797, 0.712, 0.636, 0.567)

OR

- Q.1** Bright Metals Ltd. is considering two different investment proposals. The details are as under :- **15**

	Proposal A	Proposal B
Cost of Investment	9,500	20,000
Net Cash Inflows at the end of		
Year I	4,000	8,000
Year II	4,000	8,000
Year III	4,500	12,000

- a) Suggest the most attractive proposal on the basis of Net Present Value method considering that future incomes are discounted at 12%.
b) Also find out the internal rate of return of the two proposals.

- Q.2** Minimax Ltd. has the following capital structure as on 31/3/00 **15**

10% Debentures	5,00,000
9% Preference shares	3,00,000
Equity Shares of Rs.100 each	7,00,000
Total	15,00,000

The equity shares of the company are quoted at Rs. 125 and the company is expected to declare a dividend of Rs.9 per share for the years.

Required :-

- a) Assuming the tax rate applicable to the company to be 50%, calculate the cost of capital.
b) Assuming that the company can raise additional term loan at 12% for Rs.8,00,000 to finance an expansion, calculate the revised weighted average cost of capital. The company's assessment is that it will be in a position to increase the dividend from Rs.9 per share to Rs.11 per share, but the business risk associated with new financing may bring down the market price from Rs.125 to Rs.106 per share.

OR

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OR

- Q.3 A)** What do you understand by depreciation? What are its causes? Explain briefly 8
- B)** Explain the need and significance of depreciation. 7
- Q.4** Write short notes on any 5 of the following :- 15
- 1) Minimum Alternative Taxes (MAT)
 - 2) Underwriting.
 - 3) Book building
 - 4) Ex-Right and cum Right.
 - 5) Authorised and subscribed capital.
 - 6) Pay back period
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