

JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

TEST -3 EXAMINATION- 2024

B.Tech-IV Semester (All Branches)

COURSE CODE (CREDITS): 18B11HS411 (3)

MAX. MARKS: 35

COURSE NAME: Finance & Accounts

COURSE INSTRUCTORS: Triambica Gautam, Dr. Amit Srivastava

MAX. TIME: 2 Hours

Note: (a) All questions are compulsory.

(b) Marks are indicated against each question in square brackets.

(c) The candidate is allowed to make Suitable numeric assumptions wherever required for solving problems

Q1. A company is considering three alternative plans for financing Rs. 30,00,000 for a project.

- i) All equity ii) 60% equity, 40% Debt iii) 40% equity, 60% debt.

Shares can be sold at the rate of Rs 200 per share. Funds can be borrowed as per detail given below.

Upto 6,00,000 @ 14%; Rs. 6,00,000-15,00,000 @15%; More than 15,00,000 @ 18%. Tax rate applicable is 35%. Determine the EPS under the three financing plans at an EBIT of Rs.6,00,000. Calculate the indifference point between plans (i) and (iii).

CO5 [3+2]

Q2. The SKF company is issuing Rs 1000 face value, 14% 7 year debentures for Rs 20 crores. The debentures will have to be sold at a discount of 3%. The company will also pay an underwriting fee of 3% on face value of the debenture. Assuming a tax rate of 35%, calculate the post tax cost of debentures to the company.

What would the after-tax cost if the debentures are sold at a premium of Rs30?

CO1 [3+2]

Q3. a) Briefly describe the method of computing WACC for any organization. How is the WACC used in financial decision making?

b) If the risk free rate is 6%, the return on the market is 15% and a company's beta value is 1.75, what will be its cost of equity?

CO3 [3+2]

Q4. a) Under which circumstances should IRR not be used for evaluation of projects?

b) The details of two projects a company is considering is as given below:

	Project M	Project N
Investment or cash outflow(Rs)	2,50,000	2,50,000
Annual cash inflow (Rs)	80,000	60,000
Life (yrs.)	6	10
Cost of capital (%)	10	10

Calculate the EANPV and MIRR of the two projects. Which one would you choose and why?
CO3 [2+5+2]

Q5. Explain the concept of irrelevance of capital structure using any of the theories in support of your answer.

CO4 [2]

Q6. How is operating leverage calculated? Why is this calculation important for the capital structure decision of any organization?

CO4 [3]

Q7. Answer the following in about 50 words.

- How is double entry system of accounting superior to other traditional methods?
- Why is wealth maximization superior to profit maximization?
- Briefly describe the Du Pont analysis method of financial statement analysis.

CO3 [3*2=6]