

- 2 A company is considering which of the two mutually exclusive projects it should undertake. The Finance Director thought that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows :

(Rs. in Lakhs)

Year	0	1	2	3	4	5
Cash flows						
Project A	(2.00)	0.35	0.80	0.90	0.75	0.20
Project B	(2.00)	2.18	0.10	0.10	0.04	0.03

Required :

- (a) Calculate NPV and IRR of each project.
- (b) State with reasons which project would you select.

The discount factors are as follows :

Year	0	1	2	3	4	5
Discount factors						
10%	1	0.91	0.83	0.75	0.68	0.62
20%	1	0.83	0.69	0.58	0.48	0.41

(If you need any other discount factor, calculate it yourself)

OR

- 2 Describe the methods to compute cost of various components of capital and how do you arrive at weighted average cost of capital (WACC)?

- 3 (a) "Management of cash and management of inventory are quite similar concepts." Comment. 10

AND

- (b) "Working capital should be financed out of long-term sources to avoid any liquidity risk." Comment. 10

OR

- 3 (a) What is the concept of leverage? How does financial leverage act ? 10

- (b) What are the basic principles of capital structure? Do they give conflicting suggestions? 10

- 4 Distinguish between any **two** of the following : 10+10

- (a) PI method and NPV method.
(b) Profit Maximisation and Wealth maximisation objectives
(c) Walter's and Gordon Model of Dividend decision
(d) Gross and net concepts of working capital

- 5 Discuss any **two** of the following : 10+10

- (a) EBIT – EPS Analysis
(b) Investment decisions under uncertainty
(c) Profit planning and Financial forecasting
(d) Receivables Management.