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P.T.O.



6. Calculate the average rate of return for the Project A and Project B from the following :

	Project A		Project B			
Investments ₹	20,000		30,000			
Expected life	4 yrs.		5 yrs.			
Project net income (after interest, depreciation and taxes)						
<b>Years</b>	:	1	2	3	4	5
<b>Project A</b>	:	2,000	1,500	1,500	1,000	–
<b>Project B</b>	:	3,000	3,000	2,000	1,000	1,000

If the rate of return @ 12% which project should be undertaken ?

### SECTION – C

Answer **any three** of the following questions. **Each** question carries **14** marks. **(3×14=42)**

7. Explain the various steps involved in capital budgeting process.
8. What is working capital ? Discuss the various sources of working capital funds.
9. What are the sources of bonus issue ? Write detailed note on the issue of bonus share.
10. Determine the EPS of a company which has an EBIT of ₹ 2,00,000. Its capital structure consists of the following securities.

10% Debentures – ₹ 6,00,000

12% Preference shares – ₹ 2,00,000

Equity shares of ₹ 100 each ₹ 5,00,000

The company is in the 30% tax bracket. Determine the percentage change in EPS associated with 25% increase and 25% decrease in EBIT.



11. A firm's cost of capital is 10%. It is considering two mutually exclusive projects X and Y. The details are given below :

	Project X	Project Y	PV factor
	₹	₹	at 10%
Investments	1,40,000	1,40,000	—
Net cash inflows :			
Years			
1	20,000	1,20,000	0.909
2	40,000	80,000	0.826
3	60,000	40,000	0.751
4	90,000	20,000	0.683
5	1,20,000	20,000	0.621
	<b>3,30,000</b>	<b>2,80,000</b>	

Calculate payback period and net present value of each project.

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