Time Allowed : 2½ hrs.   Roll No.: _____

Marks: 50

Instruction: Students are required to write Roll No. on every page of the question paper. Writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. Of Questions to attempt	Marks	Marks
A	3out of 5 (Short Questions)	5 marks each	3*5 = 15
B	2out of 3 (Long Questions)	10 marks each	2*10 = 20
C	Compulsory Case Study	15 marks	15

Section-A

A1.   Explain wealth maximisation and profit maximisation objectives of financial management

A2.   Discuss the financial ratios for evaluating the company's performance on operating efficiency and liquidity position aspect.

A3.   A company sells an annual policy for Rs 200 on 1 July 2018, another for Rs 100 on 1 Jan 2019 and yet another for Rs 300 on 1 July 2019. Calculate the premium earned in 2019.

A4.   Combined ratio would help to establish that an insurance company was receiving enough premium to cover the cost of claims and expenses. Discuss

A5.   Information Related to ABC Company from its financial statements is presented below:

Particulars	2017	2016
Net Sales	Rs. 86,000	Rs. 71,000
Profit after tax	Rs 12,000	Rs 11,000
Assets	Rs 49,000	Rs 41,000
Equity	Rs 27,000	Rs 21,000

In 2015, the company had assets of Rs. 35,000 and equity of Rs. 18,000.

Required:
1. Compute the profit margin, asset turnover, return on assets and return on equity for 2016 and 2017.
2. Comment on the company's profitability in 2016 and 2017.

Section-B

B1. Calculate the WACC using the following data:

- Debenture (Rs 100 per debenture) – Rs 5,00,000
- Preference Share (Rs 100 per share)- Rs 5,00,000
- Equity share (Rs 10 per share) – Rs 10,00,000

The Market Prices of these securities are

- Debenture Rs 105 per debenture
- Preference share Rs 110 per preference share
- Equity share – Rs 24 each

Additional Information:

(1) Rs 100 per debenture redeemable at par. 10 % coupon rate , 4 % floatation costs, 10 year maturity

(2) Rs 100 per preference share redeemable at par , 5% coupon rate , 2% floatation cost and 10 year maturity

(3) Equity share Rs 4 floatation costs and market prices Rs 24 per share

The next year expected dividend is Rs 1 with annual growth of 5 %. The firm has practice of paying all earning in the form of dividend.

B2. Prepare Income Statement for insurance broker for period 1st January, 2018 to 31 December, 2018 considering following items:-

Gross Written Premium-Rs. 2,187,Outward reinsurance premium-Rs. 475,Change in the gross provision for unearned premium-Rs.(91),change in the provision for unearned premium, reinsurers, share-Rs. 19,Net investment return-Rs. 403,Gross claims incurred-Rs. 2,452,Reinsurers 'share for claim incurred-Rs. 1,110,Acquisition costs-Rs. 170,Other operating expenses-Rs.150,Profit before tax-Rs. 381,Tax expense-Rs. 115

B3. M/S Gama and Co. in planning of installing a power machine and are considering buying or leasing alternatives. The machine is subject to straight line method of depreciation. Gama and Co can rate raise debt at 14 % payable in five equal annual instalments of Rs 178858 each at the beginning of the year. In case of leasing the company would be required to pay an annual end of year rent 25 % the cost of machine for 5 year. The company is in 40% tax bracket. The salvage value is estimated at Rs 24998 at the end of 5 year. Evaluate the two alternatives and advise the company by considering after tax cost of debt concept under both alternatives.

Section-C

Case Study Compulsory:-

Biz Training Ltd. is considering buying a new online learning system to enable them to deliver the training they do for their corporate clients. They are looking at three different systems and the cost of each system is as follows:

System A	System B	System C
Rs. 120,000	Rs. 100,000	Rs. 85,000

Each system has a range of functionality, but they do differ quite a bit in what they offer. While they would all do the jobs that Biz Training are looking for, they would need the firm to run their systems very differently and so the expected cash flows from each system are very different. The expected net cash flows (income - expenses) for each system are as follows:

Year	System A	System B	System C
1	Rs. 65,000	Rs. 45,000	Rs.15,000
2	Rs. 55,000	Rs. 35,000	Rs.30,000
3	Rs. 35,000	Rs. 35,000	Rs. 30,000
4	Rs. 15,000	Rs.25,000	Rs. 40,000
5	Rs. 25,000	Rs. 15,000	Rs. 45,000

The firm is assuming a discount rate of 10% and this means that they need to apply a discount factor as follows:

Year 1 0.909

Year 2 0.826

Year 3 0.751

Year 4 0.683

Year 5 0.621

Part 1 - Payback period

Use the expected net cash flow data in the case material to work out the payback period for each of the systems. Work your answer out in years and months if necessary.

System A: Payback period _____ years _____ months
System B: Payback period _____ years _____ months
System C: Payback   period   _____   years   _____   months

Part 2 - Average rate of return

Use the expected net cash flow data in the case material to work out the average rate of return for each of the systems.

Average rate of return – System A _____ %
Average rate of return - System B _____ %
Average rate of return - System _____ %

Part 3 - Discounted cash flow

Use the expected net cash flow data in the case material to work out the net present value for each of the systems.

Part 4 - Which system is best?

Write a report for the firm to use giving recommendations/information as follows:

• Which system they should use on the basis of each investment appraisal method
• which system would be best overall taking into account the results from all three methods
• Non-financial issues they should be aware of when choosing their system
• the possible limitations of investment appraisal

*****