Q.P. Code: 00005264

[Time: 3.00 Hrs] **[Marks: 75]**

Please check whether you have got the right question paper.

Instructions :

1. Q1 (20 marks) & Q8 (15 marks) are compulsory.
2. Attempt Any Four (40 marks) out of Q2, Q3, Q4, Q5, Q6 and Q7.
3. Students have to attempt any four out of the remaining six questions and within each question; students have to attempt any one out of two sub – questions. Each sub – question would carry 10 Marks.
4. Figures to the right indicate full marks.
5. Draw neat diagrams wherever necessary.

Q.1 Read and attempt the following:

(A) Multiple choice question **10 Marks**

i. Which of the following best describes financial leverage?
a) The relationship between fixed and variable costs.
b) The use of debt to increase return on equity.
c) The effect of changes in sales volume on operating income.
d) The ratio of current assets to current liabilities.

ii. Operating leverage primarily affects a company's:
a) Liquidity position.
b) Profitability.
c) Debt repayment capacity.
d) Market share.

iii. The quick ratio is calculated as:
a) (Current assets - Inventory) / Current liabilities.
b) Current assets / Current liabilities.
c) Current assets / (Current liabilities - Inventory).
d) Current assets / Inventory.

iv. Return on assets (ROA) is calculated as:
a) Net income / Total assets.
b) Net income / Shareholders' equity.
c) Operating income / Total assets.
d) Operating income / Shareholders' equity.

v. The Net Present Value (NPV) method in capital budgeting:
a. Uses the discount rate to calculate the internal rate of return.
b. Compares the present value of cash inflows to the present value of cash outflows.
c. Measures the time required to recover the initial investment.
d. Prioritizes projects based on their profitability index.

vi. Which method of capital budgeting is most sensitive to changes in the discount rate?
a. Payback Period.
b. Internal Rate of Return (IRR).

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c. Profitability Index.
d. Accounting Rate of Return (ARR).

vii. An aggressive working capital policy is characterized by:
a. High levels of current assets and low levels of current liabilities.
b. Low levels of current assets and high levels of current liabilities.
c. High levels of both current assets and current liabilities.
d. Low levels of both current assets and current liabilities.

viii. The cash conversion cycle measures:
a. The time taken to convert accounts receivable into cash.
b. The efficiency of inventory management.
c. The time taken to convert inventory into sales and then into cash.
d. The relationship between current assets and current liabilities.

ix. According to Modigliani-Miller propositions, in a world without taxes and bankruptcy costs, the value of a firm:
a. Is independent of its capital structure.
b. Increases with higher leverage.
c. Increases with lower leverage.
d. Depends on the market conditions.

x. The trade-off theory of capital structure suggests that:
a. Firms prefer higher levels of debt to minimize financial risk.
b. Firms adjust their capital structure to balance tax benefits and bankruptcy costs.
c. Firms should avoid using debt due to its high cost.
d. Firms should prioritize equity financing over debt financial.

(B) State whether True or false **10 Marks**

i. Financial leverage involves the use of borrowed funds to increase the potential return on investment.
ii. Operating leverage is a measure of how revenue growth translates into growth in operating income.
iii. The current ratio is calculated as current liabilities divided by current assets.
iv. The debt-to-equity ratio measures a company's financial leverage by comparing its total liabilities to its total shareholders' equity.
v. The Net Present Value (NPV) method is used in capital budgeting to analyze the profitability of an investment.
vi. Payback period is the time required to recover the initial investment in a project.
vii. Working capital is calculated as the difference between a company's current assets and current liabilities.
viii. A higher working capital indicates a lower liquidity position of a company.
ix. Capital structure refers to the mix of debt and equity financing used by a company.
x. An optimal capital structure minimizes the cost of capital and maximizes the value of the firm.

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Q.2 Attempt any one of the following: **10 Marks**

(A) The following key information pertains to XYZ Ltd. for the year 2022-23.

Particulars	Rs. In lakhs
Sales	200
variable cost	104
fixed cost	16
9% Debentures	100
Equity Shares	120
Corporate tax	30%

You are required to work out :

i. What is the Company's ROI?
ii. Does it have favorable financial leverage?
iii. If the firm belongs to an industry whose asset turnover is 1.5, does it have high or low asset leverage?
iv. What is the operating, financial and combined leverage of the firm?
v. What is the Company's EPS? 6. What will be the expected EPS if the Sales of XYZ Ltd. increase by 10% in the next year and cost structure as well as financial structure remains same?

(B) Explain how operating leverage affects a company's cost structure and profitability.

Q.3 Attempt any one of the following: **10 Marks**

A) Calculate operating leverage, financial leverage and combined leverage of Anna Ltd under situation 1 and 2 in financial plans A & B from the following information relating to the operation and capital structure of a company.

Installed capacity – 4,000 units

Actual production and sales – 50% of the capacity

Selling price ₹40 per unit Variable Cost ₹20 per unit

Fixed Cost:

Under Situation I ₹ 8,000

Under Situation II ₹ 10,000

	Financial plan	
Particulars	**Plan A**	**Plan B**
Equity	10,000	30,000
10% Debt	30,000	10,000
total	40,000	40,000

B) Explain sources of long term finance in details.

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Q.4 Attempt any one of the following: 10 Marks

(A) XYZ ltd financial statement contain the following information:

Particulars	Year 1 (Rs.)	Year 2 (Rs.)
Cash	2,00,000	1,60,000
Sundry Debtors	3,20,000	4,00,000
Temporary investments	2,00,000	3,20,000
stock	18,40,000	21,60,000
prepaid exp	28,000	12,000
total current assets	25,88,000	30,52,000
total assets	56,00,000	64,00,000
current liabilities	6,40,000	8,00,000
Loan	16,00,000	16,00,000
capital	20,00,000	20,00,000
Retained earning	4,68,000	8,12,000

Statement Of Profit For Current Year

Particulars	Rs.
Sales	40,00,000
Less: COGS	28,00,000
Less: interest	1.60.000
EBT	10,40,000
Less: Tax @ 30%	3,12,000
EAT	7,28,000
Profit Distributed	2,20,000

Calculate:

a) Current Ratio b) Quick ratio c) Debt Equity Ratio d) ROCE e) Working capital ratio

(B) Explain the different categories of ratios used in financial analysis, such as liquidity ratios, profitability ratios, and solvency ratios.

Q.5 Attempt any one of the following: 10 Marks

(A) On 1st January, the Managing Director of ABC Ltd. wishes to know the amount of working capital that will be required during the year. From the following information, Prepare the working capital requirements forecast.

i. Production during the previous year was 120,000 units. It is planned that this level of activity would be maintained during the present year.
ii. The expected ratios of the cost to selling prices are Raw materials 60%, Direct wages 10% and Overheads 20%.
iii. Raw materials are expected to remain in store for an average of 2 months

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before issue to production.

iv. Each unit is expected to be in process for one month, the raw materials being fed into the pipeline immediately and the labour and overhead costs accruing evenly during the month.

v. Finished goods will stay in the warehouse awaiting dispatch to customers for approximately 3 months.

vi. Credit allowed by creditors is 1 months from the date of delivery of raw material.Credit allowed to debtors is 3 months from the date of dispatch.

vii. Selling price is Rs 20 per unit.

viii. There is a regular production and sales cycle.

ix. Wages and overheads are paid on the 1st of each month for the previous month. The company normally keeps cash in hand to the extent of Rs 100,000.

(B) Define working capital and its components.

Q.6 Attempt any one of the following: 10 Marks

(A) Tom Ltd. has currently an ordinary share capital of Rs. 50 lakhs, Consisting of 50,000 equity shares of Rs. 100 each. The management is planning to rise another Rs. 20 lakhs to finance major programmed of expansion through one of four possible financing plans. The options are:

i. Entirely through equity / ordinary shares.

ii. Rs. 20 lakhs through equity shares & Rs. 30 lakhs through Long term borrowings at 8% interest p.a.

iii. Rs. 10 lakhs through equity shares & Rs. 40 lakhs through Long term borrowings at 9% interest p.a.

iv. Rs. 25 lakhs through equity shares & Rs. 25 lakhs through preference shares with 5% dividend.

v. The Company's expected EBIT will be Rs. 8 Lakhs. Assuming a corporate tax rate of 50%, determining the EPS in each alternative.

(B) Write a note on leverage?

Q.7 Attempt any one of the following: 10 Marks

(A) If two Machines details are given, which one would you choose on the basis of NPV.

Capital Outlay: A B
1,50,000 1,50,000

Annual estimated Income After depreciation & Income-tax

Year	Machine A	Machine B
	PAT	PAT
	13375	21375
	15375	19375
	17375	17375
	19375	15375
	21375	13375
Total	86875	86875

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i. Estimated life for both the machines is five years.
ii. Estimated salvage value for both the machines are 14,000 each. Depreciation has been
iii. charged on straight line basis solution.
iv. Assume discounting factor 10%

(B) Discuss the key methods used in capital budgeting, such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period.

Q.8 Write short notes on Any three from the following: 15Marks

(A) IRR
(B) Liquidity ratio
(C) Operating leverage
(D) Net working capital
(E) Capm

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