

(2 Hours)

[Total Marks: 60]

**Instructions:**

- i. All questions are compulsory and subject to internal choice.
- ii. Figures to the right indicate full marks.
- iii. Make suitable assumptions whenever required and state them.
- iv. Use of simple calculator is allowed.

**Q1.**

A) Using the following details, prepare Balance Sheet of Sky &amp; Company Ltd. [15 Marks]

Current ratio 2.75

Acid Test Ratio 2.25

Working Capital Rs.5,25,000

Reserve and surplus Rs.2,25,000

Total current assets included stock, debtors and cash only, which are in the ratio of 2:6:3.

Creditors and bills payable are in the ratio of 3:2

Fixed assets ?

The share capital is Rs. 6,00,000. There are no other items of assets and liabilities.

**OR**

B) The following information is given about PCB Ltd. for the year ending March 2024

Stock turnover ratio (based on cost of sales)	5 times
Gross profit ratio	20%
Sales for the year	Rs. 4,00,000
Closing stock is Rs. 10,000 more than the opening stock	
Opening creditors	Rs. 20,000
Closing creditors	Rs.30,000
Trade debtors at the end	Rs. 60,000
Net working capital	Rs. 50,000

Calculate Average stock, Purchases, Creditors Turnover ratio, Average Payment period and Average Collection period. [08 Marks]

C) A project involves cash inflows as given below:

Year	Cash Inflows (Rs.)
1	20,000
2	24,000
3	30,000
4	40,000

Advice whether he should invest in the project if the current rate of interest in the market is 15% and initial cash outlay is Rs. 75000. (Note: Round-off upto 2 decimals) [07 Marks]

**Q2.**

A) The capital structure of MNP Ltd is as under:

Equity share capital (Face Value: Rs.10 per share)	Rs.5,00,000
11% Preference shares	Rs.2,25,000
9% debentures	<u>Rs.2,75,000</u>
	<b><u>Rs.10,00,000</u></b>

**Additional Information:**

1. Rs.100 per debenture redeemable at par has 2% flotation cost and 10 years of maturity. The market price per debenture is Rs.105
2. Rs.100 per preference share redeemable at par has 3% flotation cost and 10 years of maturity. The market price per preference share is Rs.106.
3. Equity share has Rs.8 flotation cost and market price per share is Rs.28. The next year expected dividend is Rs.2 per share with annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.
4. Corporate Income Tax rate is 35%

Calculate Weighted Average Cost of Capital (WACC) using market value weights. **[15 Marks]**

**OR**

**B)** From the following information available for 4 firms, calculate the Earnings Before Interest and Tax (EBIT), Earnings Per Share (EPS), the Operating Leverage and the Financial Leverage.

**[15 Marks]**

Particulars	Firms			
	Rama	Raj	Raksh	Ravi
Sales (in units)	40,000	50,000	60,000	80,000
Selling price per unit (Rs.)	15	20	25	30
Variable cost per unit (Rs.)	11	16	21	26
Fixed cost (Rs.)	30,000	40,000	50,000	60,000
Interest (Rs.)	25,000	35,000	45,000	50,000
Tax (%)	35	35	35	35
Number of Equity Shares	5,000	10,000	15,000	20,000

**Q3.**

**A)** Mayuri Ltd has Equity Share Capital of Rs.25 lakhs, divided into shares of Rs.100 each. It wishes to raise further Rs.10,00,000 for expansion programme. The company plans to the following financing alternatives.

- a. By issuing Equity Share Capital only.
- b. Rs.5,00,000 by issuing Equity Shares and Rs.5,00,000 by 10% Debentures.
- c. Rs.5,00,000 Equity Shares, Rs.3,00,000 8% Preference Share Capital and Rs.2,00,000 10% Debentures.
- d. Rs.5,00,000 10% Debentures and Rs.5,00,000 8% Preference Share Capital.

You are required to suggest the best alternative, assuming that the estimated EBIT after expansion is Rs.6,00,000 and corporate tax rate is 35%. **[15 Marks]**

**OR**

**B)** The following data is available for Manay Ltd.

- i) EPS : Rs.2
- ii) IRR : 18%
- iii) Cost of Capital : 16%

If Walters Valuation formula holds what will be the price per share when the dividend payout ratio is 50%, 80% and 100%. **[15 Marks]**

**Q4.**

**A) Multiple Choice Questions:**

**[8 Marks]**

1. If EBIT is less than financial break-even point then\_\_\_\_\_
  - a. EPS will be positive
  - b. EPS will be negative
  - c. No effect on EPS
  - d. Debt increases.
2. If degree of operating leverage is 1.4 and degree of financial leverage is 1.65, then what is degree of combined leverage?
  - a. 2.31
  - b. 1.75
  - c. 1.29
  - d. 5.00
3. If Rs. 100 lakhs 14% debentures of Rs. 100 each are issued. tax rate is 40% , then the cost of debt is \_\_\_\_\_
  - a. 8.84%
  - b. 8.03%
  - c. 9.82%
  - d. 8.40%
4. Operating leverage is 2 and contribution is Rs 1000.Calculate EBIT?
  - a. Rs.2,000
  - b. Rs.1002
  - c. Rs.500
  - d. Rs.998
5. Earnings per share is Rs 5 and market price of equity share is Rs 50.Calculate the cost of equity shares?
  - a. 10%
  - b. 15%
  - c. 20%
  - d. 30%

6. What is not a part of quick liabilities?
  - a. Creditors
  - b. Bills payable
  - c. Bank Overdraft
  - d. Outstanding expenses
7. One of the following is not a function of finance.
  - a. Investment
  - b. Dividend
  - c. Financing
  - d. Production
8. \_\_\_\_\_ is a stream of regular periodic payments made or received for an indefinite period of time.
  - a. Interpolation
  - b. Perpetuity
  - c. Present Value
  - d. Annuity

**B) True or False:**

**[7 Marks]**

- 1) Dividend on preference shares is adjusted for taxes to get their cost.
- 2) A capital structure is optimum if market value of equity shares does not change in spite of change in the degree of leverage.
- 3) Trading on equity is used to increase EPS.
- 4) A bond carries a specific interest rate known as the coupon rate.
- 5) In case of annuity due, cash flow occurs at the end of each time period
- 6) The wealth of corporate owners is measured by the share price of the stock.
- 7) While computing Proprietary ratio, preference share capital is not taken as part of the Proprietor's Funds.

**OR**

**C) Write short notes: (Any Three)**

**[15 Marks]**

1. Distinguish between Profit Maximization and Wealth Maximization.
2. Present value of an annuity.
3. Long Term and Short Term ratios.
4. Classification of cost of Capital.
5. Types of leverages

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