

[Time:2.30 Hrs]

[Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. All questions are compulsory.
 2. Figures to the right indicate full marks.
 3. Use of simple calculator is allowed.
 4. Working Notes should form part of the main answer.

- Q.1 A. From the following, calculate the degree of operating leverage, financial leverage and combined leverage and interpret the results:

[15 Marks]

Particulars	X	Y	Z
Output (units)	2,50,000	1,25,000	7,50,000
Fixed Costs Rs.	5,00,000	2,50,000	10,00,000
Unit Variable CostRs.	5	2	7.50
Unit Selling Price Rs.	7.50	7.00	10.00
Interest Expense Rs.	75,000	25,000	-----

OR

- Q.1 B. You are required to complete the following Balance Sheet as on 31st March, 2024 of Mahindra Pvt Ltd.

[15 Marks]

Liabilities	Amount in Rs.	Assets	Amount in Rs.
Equity Share Capital	?	Fixed Assets	?
Reserves and Surplus	?	Investment	?
20% Debentures	500000	Current Assets	
		Stock	?
		Debtors	?
		Cash	?
Creditors	?		
Provision for Tax (current year)	?		
	?		?

Following Information is available :

1. Gross Profit Ratio is 25% and which is Rs. 12,00,000.
2. Operating expenses (including Debenture Interest) Rs. 8,00,000
3. Rate of Income Tax is 50%
4. Purchases and Sales are on credit basis.
5. Debtors Turnover Ratio (Sales/ Debtors)= 12 times

6. Creditors Turnover Ratio= (Cost of Sales/ Creditors)= 12 times
7. Earning Per Share) Rs. 20
8. Stock Turnover Ratio= 10 times
9. Debt Equity Ratio= 0.25:1
10. Current Ratio 2:1

Q.2 A Seven –Up Ltd. has Equity Share Capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for expansion –cum- moderation scheme. **[15 Marks]**

The company plans the following financing alternatives :

- 1) By issuing Equity Shares only.
- 2) Rs. 1,00,000 by issuing Equity shares and Rs. 2,00,000 through debentures or Term Loan @10% per annum.
- 3) By raising term Loan @ 10% per annum
- 4) Rs. 1,00,000 by issuing Equity Shares and Rs. 2,00,000 by issuing 8% Preference shares .
- 5) You are required to suggest best alternative giving your comments assuming that the estimated EBIT after expansion is Rs.1,50,000 and corporate rate of tax is 35%.

OR

Q.2 B. The following is the Capital Structure of Siyona company Ltd as on 31st March 2024: **[15 Marks]**

Particulars	Amount in Rs.
Equity Share Capital @100 each	40,00,000
Retained Earnings	10,00,000
9% Preference Share Capital of Rs. 100	25,00,000
7% Debentures	25,00,000

The company earns return of 12% and the tax on income is 50%.

Company wants to raise Rs. 25,00,000 for its expansion project for which it is considering following alternatives:

- a) Issue of 20,000 Equity shares at a premium of Rs. 25 per share.
- b) Issue of 10% Preference shares.
- c) Issue of 9% Debentures.

Projected that the Price Earnings ratio in case of Equity, Preference and Debenture financing Rs.20, Rs.17, Rs.16 respectively.

Which of the above proposal would you recommend? Why ?

Q.3 Unnati Ltd has the following Capital structure:

[15 Marks]

Particulars/ Sources of Funds	Rs. in Lakhs
Equity Share Capital	75
10% Preference Share Capital	40
10% Debentures	65
Total	180

The market value of companies Equity share is Rs. 70. It is expected that the company would next year pay a dividend of Rs. 8.40 per share on the face value of Rs. 10. The company's growth prospects are 5% p.a. assuming corporate taxation @35%. You are required to :

1. Compute Weighted Average Cost of Capital based on existing capital structure.
2. Compute the new composite Weighted Average Cost of Capital if the company raises additional capital of Rs. 60 lakhs as under:

Particulars/ Sources of Funds	Rs. in Lakhs
Equity Share Capital	30
12% Preference Share Capital	10
9% Debentures	20
Total	60

This would result in increasing the expected dividend to Rs. 9.10 per Equity share and leave the growth rate unchanged @5% and the anticipated market price of the Equity shares would fall to Rs. 75.

OR

Q.3 A The following information is given for AB Ltd.:

[08 Marks]

Earnings per share Rs.12
 Dividend per share Rs. 3
 Cost of Capital 18%
 Internal Rate of Return on investment 22%
 Retention Ratio 75%
 Calculate the market price per share using:

- i) Gordon's Formula
- ii) Walter's formula

Q.3 B VLtd.is considering investment in one of the following bonds Calculate YTM.

[07 Marks]

Bond	Coupon Rate	Maturity	Price (Par Value = Rs..100)
X	11%	10 yrs.	Rs.76
Y	12%	7yrs	Rs. 69

Q.4A State whether the following statements are True or False: [08 Marks]

1. Capital Budgeting is a function of finance.
2. Cash flows of different years are comparable in absolute terms.
3. YTM is calculated using IRR.
4. Dividend payout ratio shows dividend paying ability of the firm.
5. Debt collection period indicates time taken by debtors to settle the Account.
6. Dividend on preference shares is adjusted for taxes to get their cost.
7. The Capital structure need not be flexible.
8. Dividend become a liability when it is recommended by directors.

Q. 4 B Match the following by rewriting the columns A & B by matching on an overall most appropriate basis [7 Marks]

Column A	Column B
1. Dividend	a) Cost which has been incurred
2. Liquidity	b) Stream of constant cash flows occurring at regular interval.
3. Historical Cost	c) Convertibility into Cash
4. Wealth Maximization	d) Proportion between two figures.
5. Annuity	e) 2:1
6. Ratio	f) Objective of financial management
7. Standard Current Ratio	g) Part of profit distributed

Q.5 Write Short Notes on **any Three**: [15 Marks]

- i. Features of Optimal Capital Structure
- ii. Cost of Retained Earnings
- iii. M-M Approach
- iv. Classification of Cost of Capital
- v. Factors affecting Investment decisions.
