(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) From the following details prepare a summarised Balance Sheet with as many details as possible. **[15 Marks]**

Stock velocity	8	Gross Profit Ratio	25%
Capital turnover ratio (Based on cost of goods sold)	2	Debtors' velocity	3 months
Fixed assets turnover Ratio (based on cost of goods sold)	5	Creditor velocity	73 days

The gross profit was Rs. 80,000; Reserve and surplus amounted to Rs. 30,000. Closing stock was Rs. 10,000 more than the opening stock.

OR

B) Following are the Trading and Profit and Loss account of Soni Ltd for the year ended 31st March, 2023 and Balance sheet on that date: **[08 Marks]**

Trading and Profit and Loss Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening stock	1,45,000	By Sales	7,50,000
To Purchases	6,10,000	By Closing Stock	1,55,000
To Gross Profit c/d	1,50,000		
	9,05,000		**9,05,000**
		By Gross Profit c/d	1,50,000
To Sundary Expenses	80,000		
To Net Profit	70,000		
	1,50,000		**1,50,000**

Balance Sheet

Liabilities	**Rs**	**Assets**	**Rs**
Share capital	7,00,000	Net Block	5,50,000
Reserves and Surplus	50,000	Stock	1,55,000
Profit for the year	70,000	Debtors	1,80,000
Bank Overdraft	35,000	Cash	1,20,000
Creditors	1,50,000		
	10,05,000		**10,05,000**

You are required to calculate Current Ratio, Quick Ratio, Gross Profit Ratio, Stock Turnover ratio, Net profit to paid up capital and comments on it.

C) Anay Ltd. is planning to issue bond having par value of 1,000. The terms of the bond specify the following things: **[07 Marks]**

a. Issue Price at Par	₹ 1,000.
b. Coupon rate	15%
c. Maturity period	6 years.
d. Redemption Value	at 10% Premium.

1. What should be the value of the bond if the investors expect a return @ 16%?
2. Comment on the valuation of the bond, if the company decided to issue the bond at 1010?

Q2.

A) Fast Grow Ltd has equity share capital of Rs.10,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.6,00,000 for expansion cum-modernization scheme. The company plans the following financing alternatives:

1. By issuing equity shares only.
2. Rs.2,00,000 by issuing equity shares and Rs.4,00,000 through debentures or term loan @ 10% per annum.
3. By raising term loan only at 10% per annum.
4. Rs.2,00,000 by issuing equity shares and Rs.4,00,000 by issuing 8% preference shares.

You are required to suggest the best alternative, giving your comments assuming that the estimated Earnings Before Interest and Taxes (EBIT) after expansion is Rs.3,00,000 and corporate rate of tax is 35%. **[15 Marks]**

OR

B) MRL Ltd has the following book-value capital structure as on March 31, 2023:

Equity share capital (2,50,000 shares)	Rs.50,00,000
11.5% Preference shares	Rs.20,00,000
10% debentures	Rs.30,00,000
Total	**Rs.1,00,00,000**

The equity share of the company sells for Rs.20. It is expected that the company will pay next year a dividend of Rs.2 per equity share, which is expected to grow at 7% p.a. forever. Assume a 35% corporate tax rate.

Required:

1. Compute Weighted Average Cost of Capital (WACC) of the company based on the existing capital structure.
2. Compute the new WACC, if the company raises an additional Rs.20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs.2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs.16 per share. **[15 Marks]**

Q3.

A) 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**			
	Kamal	**Vimal**	**Bimal**	**Sakpal**
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	6,000	12,000	14,000	16,000

OR

B) Following are the details regarding three companies A Ltd, B Ltd and C Ltd: **[15 Marks]**

	A Ltd	**B Ltd**	**C Ltd**
Internal Rate of Return	18%	10%	6%
Cost of Equity Capital	10%	10%	10%
Earnings per share	Rs.10	Rs.10	Rs.10

Calculate value of an equity share of each of these companies as per Walter's Model when the dividend Payout ratio is:

i. 20%
ii. 50%
iii. 0% and
iv. 100%

Q4.

A) Multiple Choice Questions: **[8 Marks]**

1. What would be the present value (PV) of an annuity of Rs. 4,00,000 paid at the end of every year for 5 years @ 8% rate of return. If PV factor for 5 Years @8% is 3.993.
   a. Rs.11,90,900
   b. Rs.15,97,200
   c. Rs.11,90,000
   d. Rs.11,92,900
2. Fund created for a specified purpose by way of sequence of periodic payment over the period at a specified interest rate.
   a. Sinking fund
   b. Reserves
   c. Bond
   d. Shares

3. If degree of operating leverage is 1.5 and degree of combined leverage is 3.5, then what is degree of financial leverage?
    a. 1.75
    b. 2.00
    c. 2.33
    d. 5.00
4. The irrelevance theory of dividend was supported by________
    a. Walter
    b. Modigliani Miller
    c. Gordon
    d. Fayol
5. Wealth maximisation objective of a firm leads to ____________
    a. Increase the physical assets of the firm
    b. Increase the market value of the shares
    c. Increase the current assets of the firm
    d. Increase the cash balance of the company
6. Current ratio 4 : 1, liquid ratio 3 : 1. If inventory is Rs.36,000, current assets will be :
    a. Rs.1,44,000
    b. Rs.1,50,000
    c. Rs.1,40,000
    d. Rs.1,75,000
7. Stock working capital ratio is a proportion between___________
    a. Closing stock and working capital
    b. Opening stock and working capital
    c. Sales and working capital
    d. Sales and current assets
8. Dividend which is declared before the declaration of final dividend is called as___dividend
    a. Adhoc
    b. Final
    c. Temporary
    d. Interim

B) True or False: **[7 Marks]**

1. PV tables for annuity cannot be directly applied to mixed stream of cash flows.
2. Time value of money signifies that the value of the unit of money remains unchanged during different time period.
3. The higher is the corporate tax rate, the higher is the cost of debt.
4. Capital structure is the mix of a firm's capitalisation.
5. The profit maximization goal ignores the timings of returns, does not directly consider cash flows, and ignores risk.
6. Lower inventory turnover ratio indicates higher efficiency in inventory management.
7. Operating leverage analyses the relationship between sales level and EPS.

OR

C) Write short notes: (Any Three) **[15 Marks]**

1. Perpetuity
2. Cost of preference shares
3. Net Income Approach
4. Debt Equity Ratio
5. Functions of Financial Management
