Time: 2.5 Hours **Max. Marks: 75**

Instructions: (a) All questions are compulsory subject to internal choice.
(b) Figure to the right indicates marks.

Q.1 (A) From the following information, prepare Balance Sheet of a firm: **(15)**

Stock Turnover Ratio (based on cost of goods sold) – 7 times
Rate of Gross Profit to Sales 25%
Sales to Fixed Assets 2 times
Average Debt Collection Period 1.5 months
Current Ratio 2
Liquidity Ratio 1.25
Net Working Capital Rs.8,00,000
Reserve and Surplus to Capital 0.25 times
Long –term debts = Nil
All sales are on credit basis.

OR

Q.1 (B) An investment of Rs.55,000 made on 1/4/2018 provides inflow as follows: **(08)**

Date	Alternative I	Alternative II
01/04/2019	7,000	21,000
01/04/2020	11,000	23,000
01/04/2021	12,000	14,000
01/04/2022	12,000	11,000
01/04/2023	13,000	16,000

Which alternative would you prefer in the investor's expected return is 10%? Give reason (s) for your preference.

Q.1 (C) Naveen Ltd's bond with a par value of Rs.800 is currently traded at Rs.735. The coupon rate is 15% and it has a maturity period of 8 years. What is Yield to Maturity? **(07)**

Q.2 (A) The capital structure of a company as on 31st March 2022 is as follows: **(15)**

Equity Capital (FV Rs. 10)	Rs.2,00,000
Reserve and Surplus	Rs.50,000
10% Preference share capital	Rs.1,00,000
10% Debentures	Rs.1,50,000

For the year ended 31st March 2022 the company has paid equity dividend @20%. Dividend is likely to grow by 5% every year. The market price of equity share is Rs. 160 per share. Income-tax rate applicable to the company is 20%.

Required:

i. Compute the current weighted average cost of capital.

ii. The company has plan to raise a further Rs. 5,00,000 by way of 12% Debentures (FV Rs. 100). If debenture is raised, the market price of equity share is expected to fall to Rs. 150 per share. What will be the new weighted average cost of capital of the company?

OR

Q.2 (B) A Ltd wants to raise Rs. 2,00,000 as capital. The company expects earnings before interest and taxes (EBIT) Rs. 80,000 per annum. The management is considering the following alternatives for raising the capital: **(15)**

a) Issue 20,000 equity shares of Rs. 10 each.

b) Issue 10000 equity shares of Rs. 10 each and 1000, 12% preference shares of Rs. 100 each.

c) Issue 10000 equity shares of Rs. 10 each and 10% Debentures of Rs. 1,00,000.

You are required to calculate earnings per share and advise the alternative to be used for raising capital, assuming tax rate of 30%.

Q.3 (A) From the following, prepare Income Statement of Company A, B and C. Briefly comment on each company's performance: **(15)**

Company	A	B	C
Financial Leverage	3:1	4:1	2:1
Interest	Rs.200	Rs.300	Rs.1,000
Operating Leverage	4:1	5:1	3:1
Variable Cost as a percentage to Sales	66⅔%	75%	50%
Income tax rate	45%	45%	45%

OR

Q.3 (B) The EBIT of Ganesh Ltd is Rs. 2,50,000. The company has 10% Debentures of Rs. 10,00,000. The equity capitalisation rate is 15%. According to Net Income Approach, you are required to calculate: **(08)**

i) Market value of Equity
ii) Value of the Company
iii) Overall cost of capital

Q.3 (C) 'M' Ltd has an EBIT of Rs. 15,00,000. Its cost of debt is 12.5% and the outstanding debt is Rs. 20,00,000. The overall capitalisation rate is 15%. The company decides to raise a sum of Rs. 5,00,000 through issue of equity shares and use the proceeds to redeem the debt. You are required to calculate the total value of the firm and equity capitalisation rate. (Under Net Operating Income Approach) **(07)**

Q.4 (A) **Match the Column with appropriate answer.** **(08)**

Column A	Column B
1. Ratio	a. Walter & Gordon
2. Standard Current Ratio	b. Constant percentage of Net Earnings
3. Standard Liquid Ratio	c. Liquid investment
4. Test of liquidity	d. 2:1
5. Share listed in stock exchange	e. Modigliani & Miller
6. Irrelevance Approach	f. 1:1
7. Relevance Approach	g. Proportion between two figures
8. Stable dividend policy	h. Liquid Ratio

Q.4 (B) **State whether the following statement are True or False:** **(07)**

1. External loan affects the dividend paying ability of the organisation.
2. Trading on Equity is used to increase EPS.
3. The profit maximization goal ignores the timing of returns, does not directly consider cash flows and ignores risk.
4. Operating leverage analyses the relationship between sales level and EPS.
5. While computing Debt Equity Ratio, Preference Share Capital is to be ignored.

6. The higher the current ratio, the more likely a firm is able to pay its short-term obligations.
7. The ultimate conclusions of NI approach and the NOI approach are same.

Q.5 Write Short Notes (any Three): (15)

1. Business Risk
2. Factors affecting Capital Structure of an Organization
3. Profit Maximization v/s Wealth Maximization
4. Debt Equity Ratio
5. Working Capital
