

P4-Exam-2022-257

Con. 286-22.

YZ-8798

(3 Hours)

[Total Marks : 80]

N.B. : (1) Question No. 1 is **compulsory**.(2) Attempt any **three** questions from the Q. No. 2 to Q. No.5.(3) Working notes assumption if any, should be **part** of your answer.

1. (a) Multiple choice questions :

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(i) Relationship between Contribution and Operating Profit is known as _____

- (a) Financial Leverage (c) Net Profit Ratio
(b) Operating Leverage (d) Gross Profit Ratio

(ii) On a post-tax basis, Debt would be _____ .

- (a) More expensive compared to Equity
(b) It would be more economical compared to Equity
(c) It entirely depends upon the dividend policy of the Company
(d) It depends upon the source of Debt funds tapped by the Company.

(iii) The term "Capital Structure" refers to _____ .

- (a) current assets and current liabilities
(b) total assets minus liabilities
(c) shareholders' equity
(d) long-term debt, preferred stock, and common stock equity.

(iv) The Cost of Capital is useful for _____ .

- (a) Designing a Firm's Capital structure
(b) For decisions in selecting Fixed Assets
(c) For decisions on Dividend payment
(d) For decisions on investing surplus funds in financial assets.

(v) Combined Leverage is obtained from OL and FL by their _____ .

- (a) Addition (c) Multiplication
(b) Subtraction (d) Any of these

(vi) The weighted average cost of capital does not deal with the following components _____ .

- (a) the cost of inventory (c) the cost of debt after tax
(b) the cost of equity (d) the value of the firm's debt

(vii) EBIT is usually the same thing as _____.

- (a) Funds provided by operations (c) Net Income
(b) Earnings before taxes (d) Operating profit

(viii) The term 'redeemable' is used for _____ .

- (a) Preference shares (c) Equity shares
(b) Commercial paper (d) public deposits

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- (ix) Combined Leverage arises because of _____ .
- (a) Fixed cost of production (c) Interest Cost and Production Cost
(b) Variable Cost (d) Overhead expenses.

- (x) Use of Preference Share Capital in Capital structure _____ .
- (a) Increases OL (c) Decreases OL
(b) Increases FL (d) Decreases FL

- (b) State whether the following statement is **true** or **false** :

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- (i) Financial statements are an important source of information to shareholders and stakeholders.
- (ii) Cash budget is also known as Master Budget.
- (iii) Capital Budgeting decisions are long term decisions.
- (iv) Cash flows and accounting profits are different.
- (v) Total risk of a firm is determined by the combined effect of operating and financial leverages.
- (vi) Cost of debt and Cost of Pref. share capital, both, require tax adjustment.
- (vii) WACC is the overall cost of capital of the firm.
- (viii) Operating leverage may be defined as $\text{Contribution} \div \text{EPS}$.
- (ix) Different sources of funds have a specific cost of capital related to that source only.
- (x) In Payback Period method, the risk of the proposal is incorporated by lessening the target payback period.

2. (a) Prepare Cash Budget of UV Ltd. for 3 Months commencing from October, 2021: 10

Months	Sales	Purchase	Wages
September, 2021	10,00,000	3,00,000	1,50,000
October, 2021	8,00,000	2,00,000	1,00,000
November, 2021	10,00,000	4,00,000	2,00,000
December, 2021	8,00,000	3,00,000	1,50,000
January, 2022	10,00,000	3,00,000	1,50,000

Additional Information :

- (i) Cash as on 30th September is ₹ 1,00,000.
- (ii) Cash Sales are 25% of Total Sales.
- (iii) 60% of Credit Sales are collected in the same month and 40% in the following month.
- (iv) Payment of purchase is made 40% in same month and 60% in the following month.
- (v) Rent of ₹ 20,000 paid every month.
- (vi) Interest @ 10% on loans of ₹ 2,00,000 is paid in the month of December.

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- (b) V Ltd. is a widely held company. It is considering a major expansion of its production facilities and the following alternatives are available: **10**

Capital	(i)	(ii)	(iii)
Share capital (₹ in Lakhs)	50	20	10
14% Debentures (₹ in Lakhs)	-	20	15
15% Term Loan (₹ in Lakhs)	-	10	25
Total	50	50	50

Face value ₹ 10 per share (eq. share)

The company Earnings before interest and Taxes (EBIT) is 25% on capital. The rate of dividend of the company is not less than 20%. The company at present has low debt. Corporate taxation is 40%. Which of the alternatives would you choose?

3. (a) T Ltd. has following capital structure as on 31st December, 2021. **10**

Particulars	₹
10% Debentures	6,00,000
9% Preference shares	4,00,000
5,000 equity Shares of ₹ 100 each	5,00,000
Total	15,00,000

The equity shares of the company are quoted at ₹ 100 and the company is expected to declare a dividend of ₹ 9 per share for 2021. The company has registered a dividend growth rate of 5% which is expected to be maintained. The tax rate applicable to the company is 40%.

Calculate :

- The weighted average cost of capital.
- The revised weighted average cost of Capital. If the company raises additional term loan of ₹ 5,00,000 at 12% for expansion. In such a situation the company can increase the dividend from ₹ 9 to ₹ 10 per share but the market price of the share would go down to ₹ 90.

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- (b) The following data have been furnished by A Ltd. for the year ended 31-3-2022. **10**

Particulars	A Ltd.
Operating Leverage	3:1
Financial Leverage	2:1
Interest Charges per annum	₹ 12 Lakh
Corporate Tax rate	40%
Variable Cost as % of sales	60%

Prepare income statements of the company A. Also comment on the financial position.

4. (a) Bengal Fishing Industries Pvt. Ltd. is contemplating the purchase of a machine costing ₹ 60,000. In order to assess the profitability of the proposed investment, the following data are given: **10**

- (i) Estimated life – 6 years
 - (ii) Estimated scrap value – Nil
 - (iii) Net cash benefits before depreciation and tax (PBDT)
 - Year 1 to 3 ₹ 25,000 per year.
 - Year 4 to 6 ₹ 35,000 per year
 - (iv) Tax rate of 50%, Discounting rate is 16%
- Computer Net Present Value and Profitability Index.

- (b) A firm's sales, variable costs and fixed cost amount to ₹ 75,00,000, ₹ 42,00,000 and ₹ 6,00,000 respectively. It has borrowed ₹ 45,00,000 at 9 per cent and its equity capital totals ₹ 55,00,000. **10**

- (i) What is the firm's ROI?
- (ii) Does it have favourable financial leverage?
- (iii) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?
- (iv) What is the operating, financial and combined leverages of the firm?
- (v) If the sales drop to ₹ 50,00,000, what will the new EBIT be?
- (vi) At what level will the EBT of the firm equal to zero?

5. Write short notes on any **four**:-

- (a) Commercial Paper
- (b) Cost of Debentures
- (c) Modigliani Miller approach
- (d) Credit rating methodology for a Financial Instrument
- (e) Difference between Gross and Net Working Capital.

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