

NOTE: All questions are compulsory subject to Internal Choice

Q no 1(a) One of 2 machines A and B is to be purchased. From following information, find out which of 2 is will more profitable (8)

	Machine I	Machine II
Cost of machine	150000	180000
Working life	4 Year	6 Year
Cash inflow	Rs	Rs
Year1	50000	20000
Year2	55000	34000
Year3	50000	35000
Year4	55000	40000
Year5		20000
Year6		40000

Calculate NPV & PI Assume Discount rate @12 %

OR

Q no 1(a) Determine 1) Payback period and 2) Pay Back period from following information of a proposed project. (8)

Cost	620000
Cash Inflow	
Year 1	130000
2	150000
3	170000
4	190000
5	210000

Q no 1(b) A company issues RS.2, 00,000, 10% debentures carrying no Maturity date to the public. The company is in 50% tax bracket. Calculate the cost of debt (before as well as after tax) if the debentures are issued at par, at 10% discount and at 10% premium. (7)

OR

Q no 1 (b) A company issued 1,000 10% Irredeemable Preference Shares of Rs. 100 each. Flootation costs are estimated at 5% of face value of shares and the Tax rate is 55%. Calculate the Cost of Preference Share Capital both after-tax and before-tax, if these shares are issued at - (i) Par, (ii) 10% Discount, and (iii) 10% Premium.

Q.2. Calculate the degree of operating leverage (DOL) financial leverage (DFL) and the degree of combined leverage (DCL) for the following firms and interpret the result. (15)

	Bijlee	Sagar	Sarita
Output (units)	3,00,000	75,000	5,00,000
Fixed Cost (Rs.)	3,50,000	7,00,000	75,000
Unit variable Cost (Rs.)	1.00	7.50	0.10
Interest Expense	25,000	40,000	NIL
Unit Selling Price (Rs.)	3.00	25.00	0.50

OR

Q no. 2

A company capital structure consists of the following:

(15)

Particular	Rs. in Lakhs
Equity share of Rs. 100 each	20
Retained Earning	10
9% preference Share	12
7% Debenture	8
Total	50

The company earns 12% on capital. The income tax rate is 50%. The company required a sum of Rs. 25 lakhs to finance expansion programme for which the following alternatives are available to it.

4. Issue of 20,000 Equity Share at a premium of Rs. 25 per share.
5. Issue of 10% Preference Share
6. Issue of 8% Debentures.

It is estimated that the P/E ratio in the cases of Equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why?

(ii) Based on both plan (i) and plan (iii) gives the same MPS therefore either of them is acceptable based on MPS.

Q-3 From the following information prepare an estimate of working capital required to finance a level of activity of 3,12,000 unit p.a. (52 weeks). (15)

	Per unit Rs.
Raw Materials	90
Wages	40
Overheads.	
Manufacturing	30
Administrative	40
Selling	10
Profit	210
	40
Selling Price	250

Other Information;

- (I) Raw Materials are held in stock for a period of 4 weeks.
- (II) Material Remain in process for 2 weeks required 50% wages and 40% Overhead.
- (III) Finished goods remain in stock for a period of 4 weeks.
- (IV) Credit allowed to customers is 8 weeks but 20% of the invoice price is collected immediately.
- (V) Time lag payment of wages is 1.5 weeks and in overheads is 4 weeks.
- (VI) Credit available from suppliers is 4 weeks but 20% of the credit are paid 4 weeks in advance.
- (V) Bank balance is to be maintained at Rs.60,000.

OR

Q No 3 Y Ltd furnished the following information and requests you to prepare a statement of showing the requirement of working capital. Production capacity 40,000 units per annum. Output and sales for the year 2005-06, 40,000 units. (15)

Cost Sheet	Per Unit (Rs.)
Raw Material	25
Wages	16
Overhead	10
	51
Profit	9
Selling Price	60

Additional Information:

- (i) Raw Material remain in stock for one month's consumption.
- (ii) Process period is one month.
- (iii) Finished goods remain in stock for two month.
- (iv) credit period allowed by the suppliers of raw material is one months.
- (v) 25% of sales will be for cash.

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- (vi) Credit period allowed to debtors is two months.
- (vii) Time lag payment of wages and overheads is one month.
- (viii) Cash on Hand and at bank should be Rs.25, 000.

Q No 4 Write Short Notes On : (any 3)

(15)

- 1) Leverages
- 2) Types of Working capital
- 3) Cost of Capital of debentures
- 4) Cash Inflow
- 5) EAT And its Calculation
- 6) Techniques of Capital budgeting

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