

Q.1 A) State whether the following statements are true or false (Attempt any 8)

8 marks

1. Long term decisions involve heavy risk.
2. Cost of investment is a part of cash outlay.
3. Dividend on preference shares is adjusted for taxes to get their cost.
4. Cost of new equity and existing equity is the same.
5. Business Risk is the variability of EBIT.
6. Business Risk is associated with capital structure decision.
7. Capital structure is the composition of securities issued to raise finance.
8. An ideal capital structure can be formulated by combining debt and equity judiciously.
9. Working capital is excess of current assets over current liabilities.
10. Gross working capital is equal to net current assets.

B) Multiple choice questions: (Attempt any 7)

7 Marks

1. Long-term decisions are called as-----
 - a) Capital budgeting decisions b) working capital decisions c) Future decisions
2. Payback period is -----
 - a) the time required to recover the original investment b) the time required to depreciate asset
 - c) the time required to pay to creditor
3. Cost of capital represents -----
 - a) Minimum rate of return b) maximum rate of return c) average rate of return
4. Cost incurred for financing the project is
 - a) Historical cost b) future cost c) fixed assets
5. Operating leverage is concerned with-----
 - a) Operation of any Firm b) Finance of any Firm c) Capital of any Firm
6. High operating & financial leverages implies-----
 - a) High Risk b) Thin Interest c) Both a & b

7. Optimum Capital structure implies a ratio debt and equity at when would be least and market value of the firm would be highest.

a) Marginal Cost of Capital b) WACC c) Cost Of Debt

8. The effect of increase in leverage-----

a) Increases equity capitalization rate b) WACC remains constant c) Total value of the firm remains constant

d) All of the above

9. Gross working capital is equal to

a) Gross fixed assets b) gross current liabilities c) gross current assets

10. Negative Working capital is equal to -----

a) Current assets is less than current liability b) current assets is more than current liability

c) Current assets is equal to current liability

Q.2 From the following information pertaining to Ambica Ltd, Prepare a statement showing the Working Capital requirements: 15 marks.

Budgeted Sales in unit 26,000 per annum

Analysis of Sales (per unit) Rs

Raw Materials 3

Direct Labour 4

Overheads 2

Total Cost 9

Profit 1

Sale Price 10

It is estimated that:

a) Raw Materials remain in stock for three weeks and finished goods for two weeks

b) Factory processing takes three weeks.

c) Supplies allow five weeks credit.

d) Customers are allowed eight weeks 'credit. 20% of output sold against cash.

e) Lag in period of Direct Labour and Overheads are four weeks.

Assume that production and overheads accrue evenly throughout the year.

Or

15 marks

Q.2 B&B Ltd. had an annual sales of 50,000 units.
The Company works for 50 weeks in the year
The cost details of the company are as given below.

Cost elements	Unit Cost Rs.
Raw materials	30
Labour	10
Overheads	20
	60
Profit per unit	40
Selling price per unit	100

The company has the practice of storing raw materials for 4 weeks requirements Wages and other expenses are paid after a lag of 2 weeks. Further the debtors enjoy a credit of 10 weeks and company gets a credit of 4 weeks from suppliers. The processing time is 2 weeks and finished goods inventors is maintains for 4 weeks.

Q.3 Given below are income statements of three firms P,Q and R:

Particulars	P Rs.	Q Rs.	R Rs.
Sales revenue	9,00,000	18,75,000	2,50,000
Less: Variable expenses	3,00,000	5,62,500	50,000
Contribution	6,00,000	13,12,500	2,00,000
Less: Non-variable expenses	3,50,000	7,00,000	75,000
EBIT	2,50,000	6,12,500	1,25,000
Less: Interest	25,000	40,000	-
EBT	2,25,000	5,72,500	1,25,000
Less: Tax @40%	90,000	2,29,000	50,000
PAT	1,35,000	3,43,500	75,000

Calculate the degrees of operating leverages, financial leverage, and combined leverages for these firms

OR

A) Redemption Ltd. issues Rs 100 lakhs, 14% Debenture of Rs.100 each. Tax rate 40 %.

8 marks.

- Calculate cost of debt if issued at par redeem at par.
- Calculate cost of debt if issued at 10% premium and redeem at par.
- Calculate cost of debt if issued at 10% premium and redeem at 10% premium.
- Calculate cost of debt issued at par and redeem at 10% discount.

B) Risk Ltd issues 5000 Equity share of Rs.100 each at a premium of 10%. The company paying 20% dividend to equity shareholders for the past five years and expects to maintain the same in the future also. 7 marks.

a) Calculate the cost of equity capital

b) Calculate the cost of equity capital if market price Rs.150.

Q.4 Madhuram Industries Ltd. has an investment Proposal of Rs. 40 lakhs. The expected cash tax.

Year	Profit (Rs.)	Year	Profit (Rs.)
1	7,00,000	6	9,00,000
2	7,00,000	7	10,00,000
3	8,00,000	8	10,00,000
4	8,00,000	9	8,00,000
5	9,00,000	10	6,00,000

You are required to calculate:

a) N.P.V @ 10%.

b) Profitability Index @10%.

OR

Q.4.

a) What are the features of an appropriate capital structure? 8 marks

b) Explain the meaning of capital structure and factor affecting it. 7 Marks

Q.5 Short Notes (Any 3)

15 marks

a) Types of working capital

b) Net Present Value

c) Pay Back Period

d) Average Rate of Return

e) Internal Rate of Return