

Note : 1) All questions are compulsory.

Q.1 A) True or False : (Any 8)

8

- 1) Cost of capital refers to required rate of returns.
- 2) Equity shares capital has the highest cost of capital.
- 3) Operating profit and EBIT is same.
- 4) DPS is depend upon the profitability of the company.
- 5) Financial leverage is depend up on the operating leverage.
- 6) Dividend on ref shares is always fixed.
- 7) Net present value is always negative.
- 8) PI stand for personal investment.
- 9) Gross working capital = current assets
- 10) Prepaid expenses is a example of current Assets.

B) Match the following (any 7):

7

- | | |
|------------------------|---|
| 1) Net working capital | i) Dividend per share |
| 2) Cash outflow | ii) Walter's model |
| 3) Depreciation | iii) k_e |
| 4) WACC | iv) k_d |
| 5) NPV | v) Sources of W. capital |
| 6) DPS | vi) Moden approach |
| 7) Dividend policy | vii) Over all cost of capital |
| 8) Cost of equity | viii) Straight live method |
| 9) Cost of dest | ix) Original cost + W. Capital |
| 10) Factoring | x) Current Assets - Current liabilities |

Q.2.

You are given two financial plans of a company which has two financial situations. The detailed information are as under.

Installed capacity 5000 units

Actual production and sales 50% of capacity

Selling price ₹ 50

Variable cost ₹ 30

Fixed cost: Situation I ₹ 10,000

Situation II ₹ 12,500

Capital structure of the company is as follows:

Sources of fund	Financial	Plans
	A	B
Equity	10,000	25,000
12% Debt	30,000	15,000
	40,000	40,000

You are required to calculate OL, FL and CL of both the plans.

OR

P.T.O.

Q 2. The data relating to two companies are as given below:

Particulars	Company 'X'	Company 'Y'
Equity capital	₹ 3,00,000	₹ 2,00,000
12% Debentures	₹ 2,00,000	₹ 3,00,000
Output (in units)	60,000	15,000
Selling price per unit	₹ 15	₹ 125
Fixed cost	₹ 3,00,000	₹ 7,00,000
Contribution per unit	₹ 10	₹ 75

You are required to calculate the OL, FL and CL of two companies.

Q 3. A company has to make a choice between two possible investment projects 'X' and 'Y' the immediate cash out flow on each being ₹ 50,000. Each will continue for 5 years and it has been decided that a discount rate of 10%. The cash inflows are as follows:

Year	Project "X"	Project "Y"
1	5,000	25,000
2	10,000	20,000
3	15,000	15,000
4	20,000	10,000
5	25,000	5,000

Which project would you recommend and why?

OR

Q 3. An enterprise can make either of two investment of the beginning of 2017. Evaluate the investment proposals under

i) Pay back period ii) Average rate of return

Particulars	Project Sony	Project Mony
Cost of investment	40,000	56,000
Life (in years)	4	5
Scrap value	Nil	Nil

Net profit before depreciation and tax

Year		
1	12,000	18,000
2	18,000	25,000
3	24,000	25,000
4	20,000	25,000
5	-	25,000

Depreciation is provided under the straight line method.

Tax rate to be considered at 50%

- Q 4. Raj Ltd. has equity shares capital of ₹ 10,00,000 divided into shares of ₹ 100 each. It plans to raise further ₹ 6,00,000 for expansion. 15

The company plans the following financing alternatives.

- i) By issuing equity shares only.
- ii) By raising term loan only at 10% p.a.
- iii) 50% issue of equity shares and 50% issue of 10% Debt (Loan) you are required to suggest the best alternative giving your comments assuming that the estimated EBIT after expansion is ₹ 3,00,000 and corporate tax is 35%

OR

- Q.4. There companies P, Q and R are in the same type of business and hence have similar operating risks. However the capital structure of each of them is different and the following are the details. 15

Particulars	P	Q	R
Equity share capital of ₹ 10 each	8,00,000	5,00,000	10,00,000
Market value per share	₹ 30	₹ 40	₹ 24
Dividend per share	₹ 5.40	₹ 8	₹ 5.76
12% debentures of ₹ 100 each	—	1,00,000	2,50,000

Assume that the current level of dividends are generally expected to continue indefinitely and the income tax rate at 50%

You are required to compute WACC of each company.

- Q.5 A) Explain in brief types of leverages. (8 Marks)
- B) Explain in brief types of working capital. (7 Marks)

OR

- Q.5 Short Notes: (any three) (15 Marks)

- 1) Component of working capital.
- 2) Financial BEP
- 3) Operating Cycle
- 4) Average rate of return and pay back period
- 5) Sources of W. capital finance.

— The End —