TY BCAIF sem. V
F.M. 2015-16

QP Code : 35044

(2½ Hours) [ Total Marks : 75

N.B. : (1) All questions are compulsory
(2) Use of Simple Calculator is permitted
(3) Round off upto 2 decimal points.

Q. 1) Multiple Choice Questions ( Answer Any 8) 8

1. The level of risk premium depends upon the level of ----------
   a) Cost value of the security
   b) Market value of security
   c) Beta
   d) None of the above

2. The cost of security is ₹140, market price ₹200, dividend earned ₹ 12, what is the capital gain to the investor?
   a) 72
   b) 12
   c) 60
   d) None of the above

3. If degree of operating leverage is 2 and that of combined leverage is 4, the financial leverage of the company shall be ----
   a) 2
   b) 8
   c) 6
   d) 12

4. A firm is said to be levered when it uses ------------ capital.
   a) Equity
   b) debt
   c) Both of the above
   d) None ofthe above

5. In an all equity firm Ko is equal to -----------
   a) Ke
   b) Ke + Kd
   c) Ke+ Kd+ Kp
   d) Ke +Kp

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6. If Sales is 100, variable cost is 66.67 the P/V ratio would be
   a) 66%
   b) 33.33%
   c) 133.33%
   d) None of the above

7. If EPS of the firm is ₹ 10 and retention is 0% the dividend payout would be
   a) 10
   b) 0
   c) 5
   d) None of the above

8. Amongst the following items--------- is included while preparing cash budget.
   a) Preliminary expenses paid
   b) Depreciation
   c) Interest outstanding
   d) Goodwill written off

9. If Gross margin is 25% on Cost and sales is ₹21,00,000 the gross profit would be
   a) 6,25,000
   b) 4,20,000
   c) 5,25,000
   d) None of the above

10. ------------- refers to customers willingness to pay the debt.
    a) Capacity
    b) Collateral
    c) Condition
    d) Character

Q.1 B) State whether following statements are True or False (Answer any seven) 7

1. If the rate of interest falls the price of the security increases.
2. Business Risk is associated with operating cash flows.
3. Combined leverage reveals the total risk of the firm
4. Dividends are the cash flows returned to the shareholders.
5. EPS is independent of the capital structure of the firm.
6. The cash turnover ratio is 8 times if number of cash cycles in a year are 45 (assume 360 days).
7. Ordering costs impacts the maintenance of receivables.
8. Bad debts are not accounted for under recourse factoring.
9. EBIT is also known operating profits.
10. Preference dividend impacts the operating leverage.

Q.2 A) The combined leverage and operating leverage of the company are 2.5 and 1.25 respectively. Find the financial leverage and P/V ratio given that the interest payable per year is ₹1,00,000 and the total fixed costs is ₹50,000. The company sales being ₹10,00,000. Also calculate EPS if the company holds 10,000 5% Preference shares of ₹ 10 each and 10,000 equity shares of ₹ 5 each. Applicable Tax rate 2?%. 25 8

Q.2 B) The Market price of shares of Sun Ltd is ₹200. The company foresees the following conditions after a year. 7

| Market Condition | Probability | Market price (₹) | Dividend (₹) |
|---|---|---|---|
| Good | 0.25 | 230 | 18 |
| Normal | 0.50 | 214 | 10 |
| Bad | 0.25 | 190 | 06 |

You are asked to calculate the expected return.

OR

Q.2) Moon Ltd has a present annual sales level of 10,000 units at ₹ 300 per unit. The variable cost is 66 2/3% of sales while administration overheads amounts to ₹2,50,000 p.a. and depreciation ₹ 50,000 p.a. The present credit period allowed is 1 month. The company wishes to consider the proposal of liberal credit policy and has the following estimates

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| | Existing | Proposal A | Proposal B |
|---|---|---|---|
| Credit period | 1 month | 2 months | 3 months |
| Increase in Sales | - | 15% | 30% |
| % of bad debts | 1 | 3 | 5 |

As the sales exceeds beyond 25% of current sales the administrative overheads increase by ₹ 50,000. The expected rate of return on investments before tax is 20% p.a. You are asked to advise the company whether which policy shall be best suited.

Q.3 A) Calculate the standard deviation and expected return of the following Stock HK during various economic conditions. 8

| Economic Condition | Return on Stock | Probability |
|---|---|---|
| Peak period | 25% | 0.25 |
| Stable Period | 12% | 0.50 |
| Recession Period | 8% | 0.25 |



Q.3B) Calculate for both the companies the optimum cash balance using William Baumal Model. 7

| Particulars | Company Epiglow Ltd | Company ZED Ltd |
|---|---|---|
| Annual Cash Disbursements | ₹ 43,20,000 | ₹25,20,000 |
| Handling Cost | ₹112.50 | ₹5.00 |
| Holding cost | 12%p.a. | 7.5% p.a. |

OR

Q.3) Prepare a cash budget for April June from the following information 15

i) The estimated sales and expenses are as follows (₹)

| | February | March | April | May | June |
|---|---|---|---|---|---|
| Sales | 2,00,000 | 2,40,000 | 2,80,000 | 3,00,000 | 2,40,000 |
| Wages | 15,000 | 15000 | 20,000 | 20,000 | 12,000 |
| Factory overheads | 5,000 | 3000 | 4,000 | 4,000 | 4,000 |
| Purchases | 1,20,000 | 1,40,000 | 1,60,000 | 1,68,000 | 1,56,000 |

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ii) Collection from debtors is half in the same month and balance in the next month. 10% of sales are in cash
iii) Creditors are paid 50% after 1 month and balance after 2 months from the month of purchase.
iv) Wages and factory overheads are outstanding for 1/4th in a month
v) Advance Tax paid in the month of May ₹20,000 and depreciation charged in the month of June ₹50,000.
vi) Dividend to be received in June ₹4000.
vii) Preliminary expenses written off each month ₹ 1000.
viii) Cash balance as on 31st March ₹16000.

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Q.4) Cool Ltd earns a profit of ₹3,00,000 p.a after paying its interest of ₹ 1,20,000 on 12% Debentures enjoying tax benefit of 50%. The company also holds 80000 equity shares of ₹10 each and retained earnings ₹12,00,000. The company in the view of globalization and increasing competition goes for expansion programme costing ₹ 4,00,000 . It is anticipated that the rate of return shall remain same irrespective of expansion programme. The funds can be raised either through 12% debt or by issuing equity shares at par. Using revised EBIT you are required to compute EPS under both the option.

OR

8

Q.4 A) From the information given below calculate all 3 leverages
i) Asset Turnover ratio- 5 times
ii) Total Assets- 15,00,000
iii) P/V ratio- 20%
iv) Fixed Costs 10,00,000
v) Tax rate 20% and Debenture interest- 50,000

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B) Calculate the Market price of share as per Walter Model and Gordon Model
Retention Ratio 50%
Internal Rate of Return 20%
Cost of Capital 16%
Dividend per share ₹3
Earning Per share ₹5

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Q.5 A) Distinguish between Financial Leverage and Operating Leverage 7

B) Discuss in brief the motives for holding cash? 8

OR

Q.5) Write short notes ( Answer any 3) 15

1. Under Capitalization
2. Net Income Approach of Capitalization
3. Lock Box System
4. Cash Operating Cycle
5. Standard Deviation