Q.P. Code : 40215

[Time: 2 Hours] **[Marks: 60]**

Please check whether you have got the right question paper.

N.B:
1. All questions are compulsory, each question has an internal option.
2. Figures to the right indicates full marks.
3. Use of simple calculator is allowed.
4. Working notes should form a part of the answer.

Q.1 The following is incomplete Balance Sheet of JK Ltd. together with additional information. You are required to complete the missing figures in the Balance Sheet using ratio analysis. **15**

Balance Sheet of JK Ltd.
as at 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Share Capital	2,00,000	Fixed Assets	?
General Reserve	1,00,000	Current Assets:	
Long-term Loan	?	Inventory	?
Sundry Creditors	1,00,000	Sundry Debtors	?
		Cash & Bank	?
Total	?	**Total**	?

Additional Information:

i)	Ratio of Long-term loan to net worth	:	1 : 2
ii)	Total Assets Turnover Ratio	:	2 times
iii)	Average Collection Period	:	60 days
iv)	Inventory Turnover	:	10 times
v)	Gross Profit Margin	:	10% on cost of goods sold
vi)	Acid Test Ratio	:	1 : 1
vii)	Credit Sales (Assume 360 days in year)	:	50%

OR

Q.1 Lenova Public Limited Company proposes to use the following accounting ratios to project its Balance Sheet for next year. You are required to prepare the Projected Balance Sheet for the year 2017-18: **15**

Estimated Sales for next year	Rs. 4,50,000
Sales to Net Worth	4 times
Total Debt to Net Worth	0.65 : 1
Current Liabilities to Net Worth	0.25 : 1
Current Ratio	3.6 : 1
Sales to Inventory	5 times
Average Collection Period	36 days (year at 360 days)
Fixed Assets to Net Worth	75%

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Q.2 The existing capital structure of Sky Ltd. is as follows: **15**

	Rs.
Equity Shares of Rs. 100 each	40,00,000
Retained Earnings	10,00,000
9% Preference Shares	25,00,000
7% Debentures	25,00,000

The company earns a return before Interest and tax at 12% and the tax on income is 50%. Company wants to raise Rs. 25,00,000 for its expansion programme for which it is considering following alternatives:

a) Issue of 20,000 equity shares at a premium of Rs. 25 per share
b) Issue of 10% Preference shares
c) Issue of 9% Debentures

Which alternatives would you consider to be the best on the basis of EPS?

OR

Q.2 The Paramount Company's most recent Balance Sheet is as follows: **15**

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity capital (Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% Long-term debt	80,000	Current Asset	50,000
Retained earnings	20,000		
Current liabilities	40,000		
	2,00,000		**2,00,000**

The company's total assets turnover ratio based on sales is 4.0. Its fixed operating costs are Rs. 1,00,000. Its variable operating costs ratio is 40%. Income-tax rate is 40%.
You are required to : Calculate all three types of leverages

Q.3 Panacea Ltd. has the following capital structure; **15**

	Rs. in Lacs
Equity Shares	145
8% 'A' Preference Shares	75
11% Debentures	80
Total	**300**

The market price of the company's equity share is Rs. 44. It is expected that the company would next year pay a dividend of Rs. 8.80 per share on the face value of Rs. 10. The company's growth prospects are 7% per annum. Assuming corporate taxation @ 30% you are required to;

i) Compute weighted average cost of capital based on the existing capital structure.
ii) Compute the new composite weighted average cost of capital if the company raises additional capital of Rs. 150 lacs as under:

	Rs. in Lacs
Equity Shares	60
10% 'B' Preference Shares	40
12% Debentures	50
Total	**150**

This would result in increasing the expected dividend to Rs. 9.60 per equity share and leave the growth rate unchanged at 7% and the anticipated market price of the equity shares would rise to Rs. 48.

OR

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Q.3 Barbeque Ltd. wishes to raises additional funds of Rs. 20,00,000 for meeting its investment plans. It has Rs. 4,00,000 in the form of retained earnings available for investment purposes. The following are further details: **15**

i) Debt/Equity mix 40% / 60%
ii) Cost of debt:
Upto Rs. 5,00,000 10% (before tax)
Beyond Rs. 5,00,000 12% (before tax)
iii) Last Year Earning per share Rs. 4.
iv) Dividend Pay out 50% of earnings.
v) Expected growth rate in dividend 10%.
vi) Current market price per share Rs. 44.
vii) Rate of income tax 50%.

You are required to determine:

i) Pattern for raising the additional finance.
ii) Post tax average cost of additional debt.
iii) Cost of retained earnings and equity.
iv) Weighted average after tax cost of additional finance.

Q.4 A) Select the appropriate option from the following and rewrite the full sentence. **08**

1) _____________ is not a function of a finance manager.
a) Marketing b) Budgeting
c) Forecasting d) Financing

2) The discount rate should be ____________ to decrease the given future value.
a) Decreased b) Increased
c) Minimised d) Remains same

3) Return on capital employed is a relationship between ________.
a) Net operating profit and loan b) Net operating profit and capital employed
c) Gross profit and sales d) Gross profit and total assets.

4) Cost of a specific source of capital is ____________.
a) Specific cost b) Composite cost
c) Historical cost d) None of the above

5) The factor which is not relevant for determination of debt equity mix ___________.
a) Taxation b) Nature of Asset base
c) Industry Norms d) Viability of Cashflows

6) Financial leverage implies application of debt capital for maximizing ___________.
a) EBIT b) PBT
c) Debt d) EPS

7) Investment is made with a view to earn __________.
a) Dividend b) Interest
c) Income d) None of the above

8) Current ratio is 2.5 working capital is Rs. 60,000 current assets will be ___________.
a) Rs. 1,00,000 b) Rs. 1,40,000
c) Rs. 50,000 d) Rs. 1,25,000

B) State whether the following statements are **True or False.** **07**

1) Capital budgeting is the function of finance.
2) PV is multiplied by the compound factor to find out the future value.
3) Interest on debentures reduces tax liability.
4) Net worth means capital employed.
5) Traditional approach assumes that optimum capital structure exist.
6) Operating leverage is calculated by dividing contribution by EBT.
7) An investor does not expect liquidity of investment.

OR

Q.4 Write short notes. (any three) **15**

a) Functions of Finance.
b) Current Ratio.
c) Weighted Average Cost of Capital.
d) Business Risk.
e) Life Insurance Policies.