Q.P. Code : 13806

[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** indicate **full marks**.
3. **Use** of **simple calculator** is **allowed**.
4. **Working notes** should form **part of the answer**.

1. The summarised final accounts of two companies are as follows : **15**

Balance Sheet
as at 31-03-2017

Liabilities	₹	₹	Assets	₹	₹
Shares Capital	88,000	88,000	Fixed Assets	1,21,000	96,800
Reserves	42,900	35,200	Current Assets	1,25,400	1,03,400
8% Debentures	22,000	22,000	Less : Current Liabilities	93,500	55,000
Total	**1,52,900**	**1,45,200**	**Total**	**1,52,900**	**1,45,200**

Revenue statement for the year ended 31st March, 2017

Particulars	₹ X Ltd.	₹ Y Ltd.
Sales	3,30,000	2,64,000
Less : Cost of Sales	2,37,600	1,98,000
Gross Profit	92,400	66,000
Less : Operating Expenses	63,800	44,000
Net Profit before Tax	28,600	22,000
Less : Tax	12,100	9,240
Profit after Tax	16,500	12,760
Less : Dividend	8,800	6,600
Retained Earning	7,700	6,160

You are required to calculate the following ratios and comment :

a) Proprietary Ratio.
b) Capital Gearing Ratio.
c) Gross Profit Ratio.
d) Operating Ratio.
e) Return on Capital Employed Ratio.
f) Return on Proprietors Equity Ratio.
g) Expenses Ratio.
h) Net Profit Ratio.

TURN OVER

OR

1. The assets of SONA Ltd. consist of fixed assets and current assets, while its current liabilities comprise bank credit in the ratio of 2 : 1. You are required to prepare the Balance Sheet of the company as on 31st March, 2017 with the help of following information : **15**

Share Capital	5,75,000
Working Capital [CA – CL]	1,50,000
Gross Margin	25%
Inventory Turnover	5 times
Average collection period	1.5 Months
Current Ratio	1.5 : 1
Quick Ratio	0.8 : 1
Reserves and Surplus to Bank and Cash	4 times

2. JKL Limited has the following book value Capital Structure as on 31st March, 2017 : **15**

	₹
Equity Share Capital [2,00,000 Shares]	40,00,000
11.5% Preference Shares	10,00,000
10% Debentures	30,00,000
Total	**80,00,000**

The equity share of the company sells for ₹20. It is expected that the company will pay next year a dividend of ₹2 per equity share, which is expected to grow at 5% p.a. forever. Assume a 35% corporate tax rate.

i) Compute weighted average cost of capital [WACC] of the company based on the existing capital structure.

ii) Compute the new WACC if the company raises an additional ₹20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹2.40 and leave the growth rate unchanged, but the price of equity share will fall to ₹16 per share.

OR

2. You are required to determine the weighted average cost of capital of a firm using (i) Book – value weights and (ii) Market value weights. The following information is available for your perusal. **15**

Present Book value of the firm's capital structure is :

	₹
Debentures of 100 each	8,00,000
Preference Shares of 100 each	2,00,000
Equity share of 10 each	10,00,000
Total	**20,00,000**

All these securities are traded in the capital markets. Recent price are :

Debentures @ ₹110

Preference shares @ ₹120

Equity share @ ₹22.

Anticipated external financing opportunities are as follows :

i) ₹ 100 per debentures redeemable at par : 20 years maturity, 8% coupon rate, 4% flotation costs, sale price ₹100.

ii) ₹ 100 preference shares redeemable at par : 15 years maturity, 10% dividend rate, 5% flotation costs sales price ₹100.

In addition the dividend expected on the equity shares at the end of the year is ₹ 2 per share, the anticipated growth rate in dividend is 5% and the firm has the practice of paying all its earnings in the form of dividend. The corporate tax rate is 50%.

3. From the following prepare Income statement of the company A and Company B : **15**

Particulars	**A**	**B**
Financial leverage	4 : 1	5 : 1
Interest	₹ 6,00,000	₹ 7,00,000
Operating Leverage	3 : 1	4 : 1
Variable Cost to Sales	66.66%	50%
Income Tax Ratio	30%	40%
No. of Equity Shares	1,00,000	70,000

Also calculate and comment on EPS of both the companies.

OR

3. (a) The details regarding three companies are given below : **8**

	X Ltd.	**Y Ltd.**	**Z Ltd.**
y	12%	6%	8%
k_e	8%	8%	8%
EPS	₹ 10	₹ 10	₹ 10

Compute value of their equity shares using Walters model when dividend payout ratio is :

(a) 0%
(b) 20%
(c) 60%
(d) 100%

3. b) The following information is given for QB Ltd. : **7**

Earning Per Share	₹ 12
Dividend Per Share	₹ 03
Cost of capital	18%
Internal Rate of Return on Investment	22%
Retention Ratio	75%

Calculate the market Price per share using :

i) Gordon's Formula

ii) Walters Formula

4. (a) Multiple Choice Questions : **5**

1) FL is zero if _________.

(a) EBIT = Interest (b) EBIT = Zero

(c) EBIT = Fixed Cost (d) EBIT = Pref. Dividend

2) The term capital structure denotes _________.

(a) Total of liability side of Balance sheet

(b) Equity funds, preference capital and long-term debt.

(c) Total shareholders' equity.

(d) Types of capital issued by a company.

3) Advantage of Debt financing is _________.

(a) Interest is tax – deductible.

(b) It reduces WACC.

(c) Does not dilute owner's control.

(d) All of the above.

4) The appropriate objective of an enterprise is _________.

(a) Maximisation of sales.

(b) Maximisation of owner's wealth.

(c) Maximisation of own share capital.

(d) None of these.

5) What is the Effective Annual Percentage Rate (EAPR) of 12% compounded monthly?

(a) 12.00% (b) 12.55%

(c) 12.68% (d) 12.75%

4. (b) Match the columns : **5**

Column 'A'	Column 'B'
1) Realized yield approach	(a) Acid test ratio
2) Test of liquidity	(b) $Y_t = \dfrac{D_t + P_t - 1}{P_{t-1}}$
3) Dividend policy (stable)	(c) Under investment
4) Combined Leverage	(d) Relationship between the profits and the investments of the concern.
5) Composite Ratio	(e) Constant percentage of Net earnings.
	(f) Contribution / EBT.

4. (c) True or False : **5**
   1) Debt Service Ratio = PBIT / Interest.
   2) Financial Leverage is always beneficial to the firm.
   3) Profit / EPS maxinisation is the sole objective of financial management.
   4) Cash flows accruing to the firms at different time periods are directly comparable.
   5) WACC is always calculated with reference to book value of different sources of funds.

OR

4. Write Short notes on (**Any 3**) : **15**
   a) Importance of financial management for different stakeholders.
   b) Different types of ratios.
   c) Weighted average cost of capital.
   d) Different types of stable dividend policies.
   e) Distinguish between operating leverage and financial leverage.
