22/10/17
Monday

Sub: Corporate Finance (M.Com - Sem II)

Q.P. Code : 13805

[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. With the help of following information is supplied by M/S XYZ Ltd. Complete the following Balance Sheet given below : 15

Liabilities	₹	Assets	₹
Equity Shares Capital	?	Fixed Assets	?
Reserves and Surplus	?	Current Assets	
20% Debentures	5,00,000	Stock	?
Current Liabilities		Debtors	?
Sundry Creditors	?	Cash and Bank Balance	?
Provision for Tax (Current Year)	?		
Total	**?**	**Total**	**?**

Following information is available :

a) Gross profit ratio is 25% and which is ₹ 12,00,000 .
b) Operating expenses (including Debenture interest) ₹ 8,00,000.
c) Rate of Income Tax is 50 %.
d) Purchases and Sales are on credit basis.
e) Debtors Turnover Ratio (Sales / Debtors) = 12 times.
f) Creditors Turnover Ratio (Cost of Sales / Creditors) = 12 times.
g) Earning Per Share ₹20.
h) Stock Turnover Ratio = 10 times.
i) Debt Equity Ratio 0.25 : 1.
j) Current Ratio 2 : 1.

OR

1. Given below are income statements of Three firms A, B and C. 15

Particulars	A (₹)	B (₹)	C (₹)
Sales	12,00,000	15,00,000	18,00,000
(--) Variable expenses	?	?	?
Contribution	8,40,000	10,50,000	12,60,000
(--) Fixed Cost	1,40,000	1,50,000	2,60,000
Earnings before Interest and Tax	7,00,000	9,00,000	10,00,000
(--) Interest	1,80,000	2,50,000	2,10,000
Earning before Tax	?	?	?
(--) Tax 30%	1,56,000	1,95,000	2,37,000
Profit after Tax	?	?	?

Calculate :

1) Operating Leverage 2) Financial Leverages
3) Combined Leverages of A, B and C Ltd.

TURN OVER

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2. Ultra Ltd. has the following capital structure : 15

Particulars	₹ in Lakhs
Equity Share	75
10% Preference Shares	40
10% Debentures	65
Total	**180**

The market of companies Equity share is ₹70. It is expected that the company would next year pay a dividend of ₹8.40 per share on the face value of ₹10 . The company's Growth Prospects are 5%; P.a. assuming corporate taxation @ 35%. You are required to :

1) Compute weighted average cost of capital based on the existing capital structure.
2) Compute the new composite weighted average cost of capital if the company raises additional capital of ₹60 Lakhs as under :

Particulars	₹ in Lakhs
Equity Share	30
12% Preference Shares	10
9% Debentures	20
Total	60

This would result in increasing the expected Dividend to ₹9.10 per Equity Share and Leave the Growth rate unchanged at 5 % and the anticipated market price of the Equity shares would fall to ₹75.

OR

2 Aditi Ltd. has Equity share capital of ₹3,00,000 divided in to shares of ₹100 each. It wishes to raise further ₹1,00,000 for Expansion cum moderation scheme. 15

The company plans the following alternatives :

1) By issuing Equity shares only.
2) ₹20,000 by issuing equity shares and ₹80,000 through debentures or term loan @ 10% p.a.
3) By raising term loan only at 10% p.a.
4) ₹40,000 by issuing Equity shares and ₹60,000 by issuing 8% Preference Shares.

You are required to suggest the best alternative giving your comments assuming the estimated 'Earnings Before Interest and Taxes (EBIT) after expansion is ₹50,000 and cooperate rate of tax is 35%.

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3. Venus and Paradise co. gives you the following information. Prepare Trading and Profit & Loss Account for the year ended 31st March 2017 and Balance Sheet as on that date in as much as possible : 15

Opening Stock	₹ 90,000
Stock Turnover Ratio	10 times
Net Profit Ratio on Turnover	15%
Gross Profit Ratio on Turnover	20%
Current Ratio	4:1
Long Term Loan	₹ 2,00,000
Depreciation on Fixed Assets @ 10%	₹ 20,000
Closing Stock	₹ 1,02,000
Credit period allowed by the suppliers	1 month
Average Debt Collection Period	2 months

On 31st March, 2017 Current Assets consisted of Stock, Debtors and Cash only. There was no bank overdraft. All purchases were made on credit. Cash sales were 1/3 of credit sales.

OR

3. a) Find out the compound value of an annuity of ₹ 1 for 5 years at 5% (Invested at the beginning of the year). 8

b) Following is the Capital Structure of a firm : 7

	₹	**Proportion**
Equity Capital	4,50,000	45%
Retained Earnings	1,50,000	15%
Preference Share Capital	1,00,000	10%
Debts	3,00,000	30%
Total	**10,00,000**	**100%**

The firm's after Tax component cost of various sources of finance are as follows:

Sources	**Cost**
Equity capital	14 %
Retained earnings	13 %
Preference capital	10 %
Debts	4.5 %

Calculate weighted average cost of the firm.

4. a) State whether the following statements are true or false : **8**

1) Dividend on preference shares is fixed.
2) Compounding technique shows present val
3) Equity funds includes Debentures.
4) Current ratio is also known as Acid Test Ra o.
5) MM approach is essentially Net operating i ome approach.
6) Trading on equity is used to increase EPS.
7) Liquidity is convertibility of investment in cash.
8) Combined Leverages should be as low as p sible.

4. b) Match the following : **7**

Group 'A'	Group 'B'
• Finance	• o get doubling period
• Rule of 72	• perating Profitability
• Life Insurance	• ife blood of Business rganization
• Composite Cost	• rotection Scheme
• Liquidity	• iltedged Securities
• Net Operating Profit Ratio	• onvertibility into Cash
• Government Securities	• isk of loss
	• Veighted average cost of apital

OR

4. Write Short notes on (**Any 3**) : **15**

a) Functions of Financial Management.
b) Balance Sheet Ratios
c) Types of Leverages.
d) Forms of Investments
e) Classification of Cost of Capital.