Q.P. Code :03940

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

Please check whether you have got the right question paper.

N.B:
1. All questions are compulsory carrying 15 marks each.
2. Working notes and assumptions should form part of your answer.
3. Use of simple calculator is allowed.

Q.1 A) Om Sai Ltd. For the year 2016 reveal the following information: 15

Current Ratio	1.75:1
Liquid Ratio	1.25:1
Working capital	Rs. 7,50,000
Paid up share capital	Rs. 10,00,000
Fixed Assets as % of owner's equity	60%
Debtor's Turnover	7 weaks
Return on Equity capital	15%
Stock Turnover	4.16 times
G. P. Ratio	25%

On 31st Dec 2016, there were no current assets other than stock, debtors and bank balance and no liabilities other than share capital and current liabilities.
Prepare Profit & Loss A/c Balance sheet.

OR

B) From the following information, prepare Balance sheet of Ram Ltd. With as many details as possible: 15

i. Current Ratio 2.5:1
ii. Liquid Ratio 1.5:1
iii. Proprietary Ratio (Fixed Assets/Proprietors funds) 0.75:1
iv. Reserves and surplus Rs. 40,000
v. Bank overdraft Rs. 10,000
vi. Working capital Rs. 60,000
vii. Liquid Assets includes Debtors & cash Balance in the ratio of 5:1
viii. There is no long-term loans or fictitious assets.

Q.2 A) The following is the capital structure of Mary Ford William Ltd. as on 31/3/2016. 15

	Rs.
Equity shares: 10,000 shares (of Rs. 100 each)	10,00,000
10% preference shares (of Rs. 100 each)	4,00,000
12% Debentures	6,00,000
	20,00,000

The market price of the company's share is Rs. 110 and it is expected that dividend of Rs. 10 per share would be declared for the year 2016. The dividend growth rate 6%

(1) If the company is in the 50% tax bracket. Compute WACC.
(2) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs 10 lakhs bearing 14% rate of interest, what will be the company's revised WACC? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

OR

Q.P. Code :03940

B) PQR Ltd. has the following book-value capital structure as on March 31, 2016. 15

Equity Share Capital (2,00,000 shares)	40,00,000
11.5% preference shares	10,00,000
10% debentures	30,00,000
	80,00,000

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

Required:-

i) Compute WACC of the company based on the existing capital structure.

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

Q.3 A) Seven Up Ltd. has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for expansion cum modernization scheme. 15

The company plans the following financing alternatives:

i) By issuing equity shares only

ii) Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 through debentures or term loan @ 10% p. a.

iii) By raising terms loan only @ 10% p. a.

iv) Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 by issuing 8% preference shares.

You are required to suggest the best alternative assuming that the estimated earning before interest and taxes (EBIT) after expansion Rs. 1,50,000 and corporate rate of Tax is 35%

OR

B) VIVO Ltd., sells its product at Rs. 10 per unit. Its variable cost to sales ratio is 70%. Fixed operating cost are Rs. 10,000. Present sales are 10,000 units. you are required to calculate: 15

(1) Degree of Operating Leverage,

(2) New EBIT (Earning Before Interest and Tax) if sales increasing by 40%,

(3) New EBIT if sales falls by 25%

(4) By what % should sales fall before the firms starts incurring loss.

Q.4 A) State whether the following statements are True/false. 08

1) Ratio Analysis is an important tool of financial analysis.
2) Profit/EPS maximization is the sole objective of financial management.
3) Effective rate of interest is positively correlated with frequency of compounding.
4) Cash flows accruing to the firms at different time periods are directly comparable.
5) Bank overdraft = Current liabilities - Quick Liabilities
6) Closing stock is a liquid asset
7) Retained earnings have implicit cost only.
8) EBIT is also known as operating profits.

Q.P. Code :03940

B) Match the following 07

Group A	Group B
1) Liquid Ratio	a) Over trading
2) Test of Profitability	b) Accounting values
3) Book value weights	c) Constant percentages of Net Earnings
4) Stable dividend policy	d) Debentures issued
5) High stock Turnover Ratio	e) Balance Sheet Ratio
6) Cash Inflow	f) Maximize EPS
7) Optional capital Structure	g) ROI

OR

15

C) Short Notes (any three)

1) Functions of financial management.
2) Classification of Ratio on the basis of financial statement.
3) Significance of cost of capital.
4) Types of leverages.
5) Assumptions of MM model.