Q.P. Code :03939

[Time: Two 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 Using the following data, complete the balance sheet given below : 15

Gross profit (20% of Sales)	Rs.60,000
Shareholder's Equity	Rs.50,000
Credit sales to Total Sales	80%
Total Assets Turnover Ratio	3 times
Inventory turnover (to cost of sales) Ratio	8 times
Average Collection Period (360 days Year)	18 days
Current Ratio	1.6
Long-term Debt to Equity	40 %

OR

Q.1 From the following particulars, draw up the Balance sheet of the Company : 15

Current Ratio	2.5
Quick Ratio	1.5
Net Working Capital	Rs.90,000
Stock Turnover Ratio (cost of sales/Closing stock)	6 times
Gross Profit Ratio	20%
Fixed Assets Turnover Ratio(cost of sales)	2 times
Debtors Turnover Ratio	2 months
Fixed Assets to share holders Net worth	0.80
Reserve and Surplus to Capital	0.50

Note :
1. Liquid Liabilities are equal to Current Liabilities
2. Long term Liabilities are 75% of current Liabilities

Q.2 T Ltd has the following capital structure as on 31st March,2016 : 15

	Rs.
10% Debentures	3,00,000
9% Preference Shares	2,00,000
Equity Shares (Rs100 each)	5,00,000
	10,00,000

The equity shares of the company are quoted at Rs.102 the company is expected to declare a dividend of Rs.9 per share for the year ended 31st march, 2016. Expected growth rate is 5 %

a. Assuming tax rate applicable to the company at 50%,calculate weighted average cost of capital
b. The company wants to raise additional term loan at 12% of Rs.5,00,000 for expansion. The company's assessment is that, it will be able to pay dividend of Rs.10 per share, but market price per share will reduce to Rs.96. The expected growth rate will remain the same. Calculate the revised weighted average cost of capital.

OR

Q.2 One –up Ltd. has equity share capital of Rs. 5, 00,000 divided into share of Rs100 each. It wishes to raise further Rs.3,00,000 for expansion-cum-modernization scheme. The company plans the following financing alternatives: 15

a. By issuing equity shares only.
b. Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 through debentures or term loan @ 10% per annum.
c. By raising term loan only at 10% per annum.
d. 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 is Rs.1,50,000 and corporate rate of tax is 35%

Q.3 XYZ Ltd. had the following Balance Sheet as at 31st March 2016. 15

Liabilities	Rs.(in crores)	Assets	Rs.(in Crores)
Equity share capital	10	Fixed assets (Net)	25
(one crore shares of Rs.10 each)		Current Assets	15
Reserves and Surplus	2		
15% Debentures	20		
Current Liabilities	8		
	40		**40**

You are also given the following additional information:

Fixed costs p.a (excluding interest)	Rs.8 crores
Variable Operating cost ratio	65% of sales
Total Assets Turnover ratio	2.5
Income tax Rate	40%

Calculate and comment on the following:

a. Earnings per share
b. Operating Leverage
c. Financial Leverage
d. Combined Leverage

15

OR

Q.3 A firm sales, variable costs and fixed costs amount to Rs.75,00,000, Rs. 42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs.45,00,000 at 9 percent and its equity capital totals Rs.55,00,000.

a. What is firm's ROI?
b. What are the operating, financial and combined Leverage of the firm?
c. If the firm belongs to an industry whose asset turnover is 3,does it have a high or low asset leverage?
d. Does it have favourable financial leverage?
e. If the sales drop to Rs.50,00,000 what will be the new EBIT?
f. At what level will the EBT of the firm equals to zero? 08

Q.4 **State whether the following statements are True or false :**

a. Finance manager must be honest.
b. Compounding technique shows present value
c. Net Assets means working capital.
d. Dividend to equity shareholders reduce tax liablility
e. MM approach assumes that capital market is perfect.
f. Financial Leverage is calculated by dividing EBT by EBIT
g. Type of investment depends on the age of investors.
h. Capital employed is equal to fixed assets. 07

Q.4 Fill in the blanks.

1. Lower the risk lower the ------------------ (Gain/Loss)
2. The reasons to prefer money at present is --------------- (Time Value/ Investment Option)
3. Standard Current Ratio is --------------(2:1 / 1:1)
4. Zero Beta indicates-------------- (No Volatility / Systematic Risk)
5. The optimum capital structure minimizes the ----------------- of capital (Cost/ Finance)
6. Operating Leverage is = $\frac{\text{---------------}}{\text{EBIT}}$ (EBT / Contribution)
7. Insurance provides ---------------(Service / Protection)

OR 15

Write short notes (any Three)

1. Function of finance
2. Current ratio
3. Weighted average cost of capital
4. Business risk
5. Life Insurance policies