Q.P. Code :07883

[Time: 2.5 Hours] **[Marks:75]**

Please check whether you have got the right question paper.

N.B:
1. **All** questions are **compulsory** subject to Internal Choice.
2. **Use** of **simple calculator** is **allowed**.
3. **Figures** to the **right** indicate **full marks**.

Q.1 Attempt Any Two 15

a) From the following details calculate the Working Capital requirement for Alpha Ltd:
Raw material cost is Rs. 360 per unit, Wages Rs.40 per unit Factory Overheads Rs. 100 per unit. Selling price is Rs.600 per unit.
Raw Material is in store on an average for one one month along with Finished Goods.
Procesing time is 15 days
Credit allowed by suppliers is one month
Time lag in collection from Debtors is four months
Time lag in payment of Wages is one month and overheads is three months
20% of the output is sold on credit and cash balance to be maintained is Rs.3,00,000

b) Total Sales of a company is Rs. 8,00,000 and Variable cost is Rs.1,00,000.
At present the credit period allowed is 20 days. The company proposes two new plans to improve its Credit Policy:

Plan	Proposed Credit Period	Sales (Rs.)
A	30 days	Rs.10,00,000
B	50 days	Rs.13,50,000

The Return on Investment is 18%. Determine the credit period that should be allowed by the company.

c) From the following details you are required to prepare cash budget for the period April to June 2016:

Month	Sales (Rs.)	Purchases(Rs.)	Wages(Rs.)	Overheads (Rs.)
January	3,20,000	1,20,000	20,000	6,000
February	3,35,000	1,75,000	21,000	7,000
March	3,50,000	1,78,000	22,000	7,500
April	3,40,000	1,81,000	21,500	8,500
May	3,40,000	1,82,000	21,000	7,500
June	3,55,000	1,80,000	20,500	7,800

Other Information:
i) 20% sales is on cash basis.
ii) Amount from Debtors is collected after one month.
iii) Suppliers are paid after two month.
iv) Delay in payment of wages and overheads is one month.
v) Machinery costing Rs.50,000 was purchased in March. Entire amount was paid in the same month.
vi) Cash balance on 1st April Rs. 80,000.

Q.2 Attempt Any Two 15

a) The capital structure of Intex Ltd consists of-
Equity shares (Face value Rs.10) Rs. 12,00,000

8% Preference shares Rs,2,00,000
10% Debentures Rs.6,00,000
The market price of each equity share is Rs.20 and expected dividend is Rs.2 per share, which will grow at 8% forever. Tax rate is 40%. Calculate the weighted average cost of capital, for the above capital structure.

b. Vinay Traders Ltd has paid up capital of Rs.120 crores and their annual EBIT is Rs.24 crores. The company wants to expand their business and requires additional Rs.60 crores, which can be arranged from the following options:
   i) Issue further Equity shares of Rs.100 each at par
   ii) Raise loan having 15% interest
   iii) Issue Preference shares at 12%

   After expansion the EBIT will increases to Rs.30 crores per annum. Income Tax rate is 50%. Suggest which financing option the company should select.

c) i) What is Margin of Safety?
   ii) Sales Rs. Rs.4,40,000 (Rs. 100 per unit) Variable cost Rs.2,20,000. Fixed cost excluding interest is Rs.1,20,000 and interest is Rs. 44,000.
   Calculate Operating, Financial and Combined Leverage

Q.3 Attempt Any Two 15

a) Riddhi Ltd is planning to buy a new machine costing Rs. 30,00,000. The cash inflows after tax are as follows:

Year	Cash Inflow after tax(Rs.)	Discounting Factor @ 10%
1	3,00,000	0.909
2	9,00,000	0.826
3	12,00,000	0.751
4	18,00,000	0.683
5	12,00,000	0.621

Calculate the NPV and Profitability Index for the above and give your recommendation for the same.(Ignore Depreciation)

b) A company can invest any one of the following machines. The details as follows:

	Machine A	Machine B
Cost	Rs.6,00,000	8,40,000
Expected Life	5 years	5 years
Salvage Value	Nil	Nil
Net Income after Depreciation and Tax:		
Year 1	Rs.30,000	Rs.72,000
Year 2	Rs.30,000	Rs.72,000
Year 3	Rs.60,000	Rs.72,000
Year 4	Rs.60,000	Rs.72,000
Year 5	Rs.60,000	Rs.72,000

Recommend which project the company should invest in on the basis of Pay Back Period.

c) Why is Capital budgeting important?

Q.4 Attempt Any Two 15

a) Explain the features of a Debenture.
b) What are the effects of business restructuring?

c) The following details are available for Big Ltd & Tiny Ltd:

Particulars	Big Ltd	Tiny Ltd
Equity share capital of Rs.10 each	Rs.25,00,000	Rs.15,00,000
Earning after Tax	Rs.10,00,000	Rs.4,50,000
Market Price per share	Rs.15	Rs.5

Big Ltd intends to acquire Tiny Ltd. You are required to:

i) Calculate the current EPS of both the companies

ii) Calculate the EPS post merger, if the merger takes place by exchange of equity shares based on the current market price.

Q.5 Sakshi chemicals Ltd has to purchase one of the following machines, the details are as follows:

Particulars	Machine X	Machine Y
Initial Investment	Rs.2,00,000	Rs.1,80,000
Scrap value at the end of Useful Life	Nil	Nil
Profit after Tax and depreciation		
Year 1	Rs.1,40,000	Rs.40,000
Year2	Rs.1,00,000	Rs.80,000
Year3	Rs.60,000	Rs.1,00,000
Year4	Rs.2,40,000	Rs.80,000
Year5	Rs.3,60,000	Rs.40,000

Evaluate the above on the basis of Net Present Value and give recommendations to the company.
Cost of capital is 15%. Present value @ 15% is given below:

Year	Year 1	Year2	Year3	Year4	Year5
PVF @ 15%	0.870	0.756	0.658	0.572	0.497