Q.P. Code:07886

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

Please check whether you have got the right question paper.

N.B: **Section I is compulsory**
Attempt any three questions form Section II
Figures to Right indicate full marks.

SECTION-I

Q.1 A. Explain the following : 05

i) Combined Leverage
ii) Internal Rate of Return
iii) Net Working Capital
iv) Debentures
v) Interim Dividend

Q.1 B. Attempt any Two questions: 10

i) Following information is provided by Radha Ltd for an output of 1,20,000 units:

Selling Price	Rs.80per unit	Variable Cost	RS.30 per unit
Fixed Cost	Rs.4,00,000	Interest Expense	Rs.50,000

Form the above information; calculate Operating Leverage and Financial Leverage.

ii) Ramesh Ltd. has the following capital structure as on 31st March 2014:

Particulars	Rs.(in lakhs)
Equity	1,20,000
11% preference share capital	33,000
12% Debentures	1,47,000

The shares of the company are traded at Rs.45 per share. It is expected that the company will pay next year dividend of Rs. 9 per share which will grow @4% forever. Assume Tax rate @ 40%.You are required to compute the weighted average cost of capital.

iii) White Ltd intends to acquire Black Ltd and the following information is available:

Particulars	White Ltd	Black Ltd
Number of Equity shares	2,00,000	1,20,000
Earnings after Tax	Rs.1,20,00,000	Rs.48,00,000

White Ltd will issue 1 share for every 3 shares held in Black Ltd. You are required to calculate:
a) Pre Merger EPS b) Post Merger EPS

Q.2) Case study: 15

Global Ltd is considering purchasing a machine which requires an investment of Rs.240 lakhs. The useful life of the machine is 8 years. The salvage value of the machine is Nil at the end of its useful life. The company follows Straight Line method of depreciation and tax rate is 50%. Following are the cash on flows before depreciation and tax:

Year	Cash Inflow (Rs. In lakhs)	PV at 15%
1	50	0.870

2	70	0.756
3	90	0.658
4	130	0.572
5	130	0.497
6	110	0.432
7	70	0.376
8	30	0.327

Advise the company on the basis of the Net Present Value.

SECTION-II

Q.3) A manufacturing company provided the following data for the previous year: 10

1) Production during previous year was 3, 00,000 units. It is estimated that in the present year the same level will be maintained.
2) The expected ratios of cost to selling price are Raw Material 60%, Direct Wages 10%, and Overheads20%.
3) Raw materials are expected to remain in store for an average two months before issue to production.
4) Process time is one month.
5) Finished Goods will remain in the warehouse for one and half months.
6) Credit allowed by suppliers of Raw Materials is two months.
7) Credit allowed to Debtors is three months, all sales being on credit basis.
8) Selling price per unit Rs.100
9) Wages and Overheads are paid on the first of each month for previous month.
10) Cash balance to be maintained is Rs.3, 50,000.

Estimate the Working Capital required for the current year.

Q.4) SOMESH ltd has provided the following data: 10

Month	Sales (Rs.)	Purchases(Rs.)	Wages(Rs.)	Expenses(Rs.)
January	2,00,000	50,000	20,000	10,000
February	2,20,000	60,000	20,000	8,000
March	2,40,000	30,000	20,000	8,000
April	3,00,000	70,000	30,000	8,000
May	3,50,000	40,000	30,000	12,000

Additional Information:

i) 50%sales are cash sales, balance on 1 month credit
ii) Purchases on 2 months credit
iii) Wages paid 1 month in arrears
iv) 40% expenses paid in the same month, balance on 1 month credit
v) Sale of old machine in March Rs.1,00,000
vi) Purchase of New Machine in May Rs. 2,00,000
vii) Dividend to be paid in April Rs. 20,000
viii) Opening Balance of Cash on 1st March Rs.1,50,000

Prepare Cash Budget for March, April and May.

Q.5) Excel Ltd has Equity share capital of Rs.100 lakhs ,divided into shares of Rs.100 each. It wishes to raise additional Rs.60 lakhs for expansion and modernization programme,for which the following two options are available: 10

i) Rs.20 lakhs through Equity shares and Rs.40 lakhs through 10% Debentures.

ii) Entirely through 10% Debentures.

Earnings before Interest and Tax is Rs.30 lakhs. Tax rate is 50%. Suggest the best alternative.

Q.6 Write short notes on: 10

a) Preference shares
b) Short term sources of funds
