Time: 2 ½ hrs **Total marks: 75**

Q1. (Attempt any 2 out of A, B, C) (15)

A) The following is the cost sheet of a company:

Raw material	Rs. 90 per unit
Direct labour	Rs. 20 per unit
Overheads	Rs. 60 per unit
Total cost	Rs. 170 per unit
Selling price:	Rs. 200 per unit

a) Raw material will be in stock for one month.
b) Work in progress (completion stage) is 50% for all, on an average half a month.
c) Finished goods will be in stock on an average for one month.
d) Credit allowed by suppliers: 1 month; credit allowed to debtors: 2 months.
e) Average lag in payment of wages is one and half weeks and one month for overheads.
f) Sales are fully on credit basis.
g) Cash at bank / hand: Rs. 3,80,000

Prepare a statement showing working capital required to produce and sell 1,04,000 units per annum. (For calculation purpose you may consider 4 weeks equivalent to one month)

B) A company is considering relaxing its credit policy. At present it has annual credit sales of Rs.20 lakh when it is giving credit of 2 months. Bad debts at present account to Rs.50,000. The firm is required to give a return of 30% on investment in accounts receivables. The company's variable costs are 60% of selling price.

	Option 1	Option 2
Credit sales	40 lakh	50 lakh
Accounts receivables	3 months	4 months
Bad debts	70,000	1,00,000

Which is better from the two options? Should the company extend credit?

C) Explain the scope of financial management

Q2. (Attempt any 2 out of A, B, C) (15)

A) Explain the different types of costs associated with accounts receivables.

B) A company has the following capital structure:

Ordinary shares (4,00,000 shares)	Rs. 80,00,000
10% preference shares	Rs. 20,00,000
14% Debentures	Rs. 60,00,000

Dividend on equity capital is 17%. Assume tax of 40%. Compute WACC.

C) The following information of PQR Ltd is given below

Particulars	PQR Ltd
Sales (units)	60,000
Selling price per unit	40
Variable cost per unit	20
Fixed cost (Rs)	500000
Interest (Rs)	100000
Tax (%)	30
No of shares	40,000

Calculate Operating leverage, financial leverage and EPS.

Q3. (Attempt any 2 out of A, B, C) (15)

A) From the following information prepare cash budget for the quarter ending in March 2017:

Month	Sales	Purchases	Wages	Expenses
November 16	5,00,000	1,00,000	2,00,000	40,000
December	6,00,000	2,00,000	2,00,000	40,000
January 17	4,00,000	3,00,000	2,20,000	50,000
February	5,00,000	2,00,000	2,20,000	50,000
March	6,00,000	1,00,000	2,40,000	50,000

Additional Information:

a) 10% sales & purchases are on cash basis.
b) Credit to Debtors: 1 month.
c) Credit from creditors: 2 months.
d) Lag in payment of wages: 15 days.
e) Expenses are paid in the same month.
f) Cash at bank on 1st January = Rs.6,00,000

B) Distinguish between operating leverage and financial leverage.

C) Explain cost of debenture cost of equity and cost of retained earnings.

Q4. (Attempt any 2 out of A, B, C) (15)

A) Explain any 4 long term sources of funds

B) What are the motives of holding cash?

C) A Ltd is intending to acquire B Ltd by merger and the following information is available:

Particulars	A Ltd	B Ltd
No of equity shares	1,00,000	1,00,000
EAT (Rs)	5,00,000	3,00,000

i) What is the present EPS of both the companies?

ii) If the proposed merger takes place, what would be the new EPS of A Ltd, assuming that the merger takes place by exchange of equity shares?

iii) Will this be beneficial for share holders of A Ltd in terms of EPS?

Q5. A company is considering 2 projects each of which require initial outlay of Rs 50 million. The expected cash flow of these projects is given below. (All figures in Rs million) (15)

Year	Cash inflow (Project M)	Cash inflow (Project N)	Discount factor @ 10%
1	12	48	0.909
2	20	32	0.826
3	35	22	0.751
4	34	12	0.683

Calculate Net Present Value, Profitability index and Payback period for both the projects and comment on which project is to be selected considering 10% discount factor.

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