...countancy : Paper III - Advanced Financial Management.

(3 Hours) **(Total Marks : 100)**

Please check whether you have got the right question paper.

N.B.:
1) **Question No.1** and **Question No. 2** are **Compulsory** and carry **20** and **16 marks respectively**.
2) Solve any **four** questions from **Question No. 3** to **Question No. 9**, each carrying **16 marks**.
3) **Working Notes** and assumptions should **part of your answers**.
4) Use of **simple calculator** is **allowed**.

1. The following table shows the capital structure of PLUS Ltd. **(20)**

Source of Capital	Book Value (₹)	Market Value (₹)
Equity Share (₹100 per share)	7,20,000	18,00,000
10% Cumulative preference shares @₹100 each	1,20,000	1,50,000
12% Debentures	3,60,000	4,50,000
Total	**12,00,000**	**24,00,000**

The current market price of the company's equity share is ₹180. For the last year the company had paid equity dividend at 20% and its dividend is likely to grow 5% every year. The corporate tax rate is 30%.

You are required to calculate :

a) Cost of capital for each source of capital.

b) Weighted average cost of capital on the basis of book value weights.

c) Weighted average cost of capital on the basis of market value weights.

2. A) State whether the following statements are True or False : **(08)**

1) According to MM approach, the value of a firm is affected by the debt-equity mix.
2) Dividend payout indicates the extent of the net profits distributed to the shareholders as dividend.
3) Cost of Preference Share Capital is higher than the cost of equity capital.
4) Gross working capital means total of current assets.
5) Fixed assets turnover ratio indicates the efficient utilization of current assets.
6) Each type of funds carries a cost.
7) A highly leveraged firm is lesser risky than its peers.
8) Annuity is a term used to describe a series of periodic flows of equal amounts.

2. B) Match the Columns : **(08)**

Column 'A'	Column 'B'
• Combined Leverage	• Fixed Interest Bearing Funds / Equity Shareholder's Funds
• Debtors Turnover Ratio	• Sale of bill to a bank
• P/E Ratio	• Current Accountholder
• MPBF	• NPV Zero
• Reorder Level	• Maximum Permissible Bank Finance
• Bill Discounting	• Contribution / EBT
• IRR	• Credit Sales / Average Debtors
• Bank Overdraft	• Price / Earnings Ratio
	• Minimum Level + Consumption during lead time

3. Shaun Ltd. wants to raise ₹5,00,000 as capital. The company Expects Earnings Before Interest and Taxes (EBIT) ₹2,00,000 per annum. The management is considering the following alternatives for raising the capital : **(16)**

a) Issue 50,000 equity shares of ₹10 each.

b) Issue 25,000 equity shares of ₹10 each and 2,500, 12% preference shares of ₹100 each.

c) Issue 25,000 equity shares of ₹10 each and 10% Debentures of ₹2,50,000.

You are required to calculate earnings per share and advise the alternative to be used for raising capital, assuming tax rate of 30%.

4. FIT-BIT LTD. has sales of ₹10,00,000; variable cost 60% of sales and an operating profit (EBIT) of ₹1,60,000. Its capital structure consists of the following securities : **(16)**

10% Debentures	₹5,00,000
12% Preference Shares	₹1,00,000
Equity Shares of ₹100 each	₹4,00,000

The company is in the 50% tax bracket.

Calculate :

(i) EPS (ii) Operating Leverage (iii) Financial Leverage (iv) Combined Leverage.

5. From the following details, Furnished by M/s. Rexo & Co. for the year ended on 31.03.2019, prepare the Balance Sheet as on that date : **(16)**

Current Ratio	1.75	Reserves and Surplus : Equity Shares Capital	0.2
Quick Ratio	1.25	Cost of Sales : Fixed Assets	1.2
Stock Turnover (Cost of Sales / Closing Stock)	9	Debt : Equity	0.6
Gross Profit Ratio	25%	Fixed Assets : Net Worth	1.25

The firm sells its products only on credit. Credit sales for the year ended 31.03.2019 amounted to ₹120 lakhs.

6. Kabir Ltd. manufactures of Water Purifiers, are considering the relaxation of existing credit terms to three of their large customers P, Q and R. The credit period and likely number of water purifiers that will be purchased by these customers are as follows : **(16)**

Credit Period (Days)	P	Q	R
0	5,000 units	3,000 units	-
30	5,000 units	4,500 units	-
60	5,000 units	6,000 units	9,000 units
90	5,000 units	7,500 units	13,500 units

The selling price per Water Purifier is ₹9,000. The expected contribution is 20% of the selling price. The cost of carrying debtors averages 20% per annum (based on variable cost).

You are required :

Determine the credit period to be allowed to each customer. (Assume 360 days in a year for calculation purposes).

7. A Ltd. has two projects under consideration X & Y, each costing ₹90 lakhs. The projects are mutually exclusive. Life for project X is 4 years and project Y is 3 years. Salvage value NIL for both the projects. Tax rate 40%. Cost of Capital is 15% : **(16)**

Net Cash Inflow (₹ Lakhs)

At the end of the year	Project X	Project Y	P. V. @15%
1	90	150	0.870
2	165	195	0.756
3	180	75	0.658
4	22	-	0.572

8. Rambo Company wishes to arrange overdraft facilities with its bankers during the period April to June, 2018 when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data indicating the extent of facilities the company will be require at the end of each month : **(16)**

Month	Sales (₹)	Purchase (₹)	Wages (₹)	Mfg. Expenses (₹)	Office Expenses (₹)	Selling Expenses (₹)
February	1,80,000	1,24,000	12,000	3,000	2,000	2,000
March	1,92,000	1,44,000	14,000	4,000	1,000	4,000
April	1,08,000	2,43,000	11,000	3,000	1,500	2,000
May	1,74,000	2,46,000	12,000	4,500	2,000	5,000
June	1,26,000	2,68,000	15,000	5,000	2,500	4,000
July	1,40,000	2,80,000	17,000	5,500	3,000	4,500
August	1,60,000	3,00,000	18,000	6,000	3,000	5,000

a) Cash on hand 01.04.2018 (estimated) ₹25,000.

b) 50% of credit sales are realized in the month following the sale and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase.

c) Lag in payment of manufacturing expenses ½ month.

d) Lag in payment of all other expenses 1 month.

e) Tax paid in June ₹4,500.

9. Write short notes **(Any Four)** : **(16)**

1) Importance of Capital Budgeting
2) Internal Rate of Return
3) Working Capital Cycle
4) Combine Leverage
5) Current Ratio
6) Trading on Equity

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