Q.P. Code :10298

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

Please check whether you have got the right question paper.

N.B:
1. **All** questions are **compulsory**.
2. **Give working wherever necessary.**
3. **Figures** to the **right** indicate **full marks**.
4. **Please read instructions carefully before attempting any question.**

Q.1 ABCL Limited has the following Balance sheets as on March 31, 2016 and March 31, 2015: 15

Balance Sheet

(Rs. In lakhs)

	March 31, 2016	**March 31, 2015**
Sources of Funds:		
Shareholders Funds	2,377	1,472
Loan funds	3,570	3,083
	5,947	**4,555**
Applications of Funds:		
Fixed Assets	3,466	2,900
Cash and bank	489	470
Debtors	1,495	1,168
Stock	2,867	2,407
Other Current Assets	1,567	1,404
Less: Current Liabilities	(3,937)	(3,794)
	5,947	**4,555**

The Income Statement of the ABCL Ltd. For the year ended is as follows: 15

	March 31, 2016	**March 31,2015**
Sales	22,165	13,882
Less: Cost of Goods sold	20,860	12,544
Gross Profit	1,305	1,338
Less: Selling, General and Administrative expenses	1,135	752
Earnings before Interest and Tax (EBIT)	170	586
Interest Expense	113	105
Profits before Tax	57	481
Tax	23	192
Profits after Tax (PAT)	34	289

Required : Calculate for the year 2015-16:

(a) Inventory turnover ratio
(b) Financial Leverage
(c) Return on Investment (ROI)
(d) Return on Equity (ROE)
(e) Average collection period.

Comment on the Financial Position of ABCL Limited.

OR

Q.1 A. Snap company's equity shares are being traded in the market at Rs. 54 per share with a price earning ratio of 9. The company's dividend payment is 72%. It has 1,00,000 equity shares of Rs. 10 each and no preference shares. Book value per share is Rs. 42. Calculate (i) EPS (ii) Net Income (iii) Dividend yield and (iv) Return on Equity 4

Q.1 B. Calculate P/E Ratio from the following: 3

Equity Share Capital of Rs. 20 each	Rs. 50,00,000
Reserves & Surplus	5,00,000
15% Secured Loan	25,00,000
Unsecured Loan at 12.5%	10,00,000
Fixed Assets	30,00,000
Investments	5,00,000
Operating profit	25,00,000

Income Tax Rate 50%. Market Price /share Rs.50.

Q.1 C X Co. has made plans for the next year. It is estimated that the company will employ total assets of Rs. 8,00,000; 50 per cent of the assets being financed by borrowed capital at an interest cost of 8 per cent per year. The direct costs for the year are estimated at Rs.4,80,000 and all other operating expenses are estimated at Rs. 80,000. The goods will be sold to customers at 150 per cent of the direct costs. Tax rate is assumed to be 50 per cent. You are required to calculate: (i) net profit margin; (ii) return on assets; (ii) asset turnover and (iv) return on owners' equity. 8

Q.2 a) Four equal annual payments of Rs. 5,000 are made into a deposit account that pays 8 percent interest per year. What is the future value of this annuity at the end of 4 years? 7

Q.2 b) After reviewing your budget you have determined that you can afford to pay Rs. 12,000 per month for 3 years towards a new car. You call a finance manager and learn that the going rate of interest on car finance is 1.5% per month for 36 months. How much can you borrow? 8

OR

Q.2 a) Mrs. Sonali wishes to invest Rs.3,00,000 into an FD account. The enquiries made reveal the following information: 8

i) Company X offers 20% with interest payable annually.
ii) Company Y offers 19.5% with interest payable semiannually.
iii) Company Z offers 19% with interest payable quarterly.

Compute the effective interest rates in each of the above alternatives and advice Mrs. Sonali on the most profitable option.

Q.2 b) Milind International borrows Rs.7,00,000 at an interest rate of 12%. The loan is to repaid in 5 equal annual installments payable at the end of each of the next five years. Compute the equated yearly installment to be paid by Milind International. 7

Q.3 a) The dividends per share of X Ltd. has been growing at an average annual compounded rate of 10%. Its last dividend paid was Rs.2 per share. Its growth rate will drop to 5 per cent from the beginning of the 4th year. What would be the intrinsic value of the company's share if the required rate of return is 15%? 7

Q.3 b) Adani Ltd is currently paying dividend of Rs. 1.50 on its face value of Rs. 10. Earnings and dividends are expected to grow at 8% annual rate indefinitely. Investors require 10% rate of return on their investments. The company is considering following business strategies and wishes to determine the effect of these strategies on the market price of the shares. 8

i) Continuing the present strategy will result in the expected growth rate and required rate of return as above.

ii) Expanding sales will increase the expected growth rate to 10% but will increase the risk of the company. As a result the investors required rate of return will increase to 12%.

You are required to find out the best strategy from the point of view of the market price.

OR

Q.3 a) A GOI bond of Rs.2000 each has a coupon rate of 5 percent per annum and maturity period is 20 years. If the current market price is Rs.2050, find YTM. 7

Q.3 b) Ram Enterprises recently paid an annual dividend of Rs.5.75 per share. Earnings for the same year were Rs.8.50 per share. The required return on equity with similar risk is 14%. Dividends are expected to grow at 12% p.a. indefinitely. Calculate Ram Enterprise's normal P/E ratio. 8

Q.4 Choose the correct option and Rewrite your answer: 15

1. What is the rate of return from the following information?

   Price at the beginning of the year is RS. 50/- Dividend paid at the end of the year is RS. 2.50 and price at the end of the year is RS. 55/-

   1. 14% 2. 15% 3. 16% 4. 17%

2. Return on investment is determined by ___________

   1. Net profit 2. Capital employed 3. Net worth 4. Net profit and capital employed

3. The ratio which indicates the company's credit policies and aggressiveness in collection its receivable is known as __________

   1. Debtors turnover ratio 2. Stock turnover ratio 3. Assets turnover ratio 4. Current ratio

4. RONW is useful to the investors to determine____________

   1. If the company has made proper use of shareholder's funds
   2. If the company has paid regular dividend
   3. If the company is paying its debt regularly
   4. If the company is solvent

5. Taking advantage of equity capital to borrowed capital on reasonable basis is___________

   1. Over-trading 2. Under-trading 3. Trading on equity 4. Capital gearing

6. For Rs. 1,000 you can purchase a 5-year ordinary annuity that will pay you a yearly payment of Rs.263.80 for 5 years. The compound annual interest rate implied by this arrangement is closest to

   A. 8 percent B. 9 percent. C. 10 percent. D. 11 percent.

7. You are considering borrowing Rs.10,000 for 3 years at an annual interest rate of 6%. The loan agreement calls for three for equal payments, to be paid at the end of each of the next 3 years. (Payments include both principal and interest.) The annual payment that will fully pay off (amortize) the loan is closest to

   A. Rs.2,674. B. Rs.2,890. C.Rs.3,741 D. Rs.4,020.

8. In a typical loan amortization schedule, the total dollar amount of money paid each period
   A. Increases with each payment
   B. Decreases with each payment
   C. Remains constant with each payment

9. In the long-run, it is most important for a business to generate an inflow of cash from its:
   A. Operating activities. B. stockholders. C. investing activities. D. Creditors.

10. Return on assets measures the deficiency with which management
    A. Generates earnings from the assets under its control, regardless of how these assets are financed.
    B. Generates earnings from the assets under its control, giving consideration to any costs of financing these assets.
    C. Generates cash from the assets under its control, regardless of accrual-based measures of profitability.
    D. Converts its current assets into cash.

11. A company with equity capital 0f Rs. 15crores makes PBIDT of Rs. 15crores and PAT of Rs.10crores. the face value of its share is Rs.5 and PE is 10. The market price will be ______________
    (i) Rs.50 (ii) Rs.66 (iii) Rs.33 (iv) Rs.100

12. 7.5% coupon interest Government Security is quoted at Rs. 120. Its current yield will be ----------.
    (i) 8.55% (ii) 6.25% (iii) 7.75% (iv) 7%

13. Every company should follow
    (a) High Dividend Payment,
    (b) Low Dividend Payment,
    (c) Stable Dividend Payment,
    (d) Fixed Dividend Payment

14. Credit rating Information Services of India Ltd. Does not rate-
    a. Fixed Deposits b. Commercial papers c. Equity shares d. PSU bonds

15. When the firm takes advantage of borrowed funds to increase the ROI, it is termed as-
    a. Trading on equity b. Over capitalization c. Over trading d. Capital gearing

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