**Q.P.Code: 37756**

**(2 Hours)** **[Total Marks: 60]**

Instructions:

A. All questions are compulsory subject to internal choice.
B. Figures to the right indicate full marks.
C. Make suitable assumptions wherever required and state them.
D. Use of Simple calculator is allowed

Q.1) From the following particulars of Imperial Chemicals Ltd. and its industry averages assess the company's strengths and weaknesses in terms of liquidity, solvency and profitability. **15**

**Imperial Chemicals Ltd. Balance Sheet as on 31st December, 2013**

| **Liabilities** | ₹ | **Assets** | ₹ |
|---|---|---|---|
| Equity Share Capital | 2,00,000 | Plant & Machinery | 3,02,000 |
| 10% Preference Share Capital | 80,000 | Stock | 1,21,600 |
| Retained Earnings | 54,800 | Debtors | 72,000 |
| Long – term Debt | 68,000 | Cash | 24,600 |
| Sundry Creditors | 63,000 | | |
| Outstanding Expenses | 2,400 | | |
| Other Current Liabilities | 52,000 | | |
| | 5,20,200 | | 5,20,200 |

Statement of profit for the year ended December 31, 2013

| Particulars | ₹ | ₹ |
|---|---|---|
| Net Sales | | 4,80,000 |
| Less : Cost of Goods sold | 3,05,000 | |
| Selling Expenses | 62,000 | |
| Administrative Expenses | 39,600 | |
| Interest | 5,800 | 4,12,400 |
| Earnings before Tax | | 67,600 |
| Less : Income Tax | | 33,800 |
| Net Income | | 33,800 |
| Dividend paid to Equity Shareholders | | 12,000 |

Financial Ratios of Industry for 2013:

(1) Current ratio-2.2 to 1 (2) Stock turnover-2.8 times (3) Collection period -56 days

(4) Income before tax / sales -11.9% (5) Return on shareholders equity -10.9%

**OR**

**TURN OVER**

Q.1) VRA Limited has provided the following information for the year ending 31st March 2015. **15**

| | |
|---|---|
| Debt Equity Ratio | 2 : 1 |
| 14% Long Term Debt | ₹ 50,00,000 |
| Gross Profit Ratio | 30% |
| Return on Equity (Post Tax ) | 50% |
| Income Tax Rate | 35% |
| Capital Turnover Ratio | 1.2 times |
| Opening Stock | ₹ 4,50,000 |
| Closing Stock | 8% of Sales |

You are required to prepare trading and Profit and Loss Account for the year ending 31st March 2015.

Q.2) ABC Ltd. Wishes to raise additional finance of ₹ 20 lakhs for meeting its investment plans. **15**
The company has ₹ 4,00,000 in the form of retained earnings available for investment purpose. The following are the further details.

- Debt equity 25 : 75
- Cost of debt at the rate of 10% (before tax) up to ₹ 2,00,000 & 13% (before tax) beyond that.
- Earning per share, ₹12.
- Dividend payout 50% of earnings.
- Expected growth rate in dividend 10%.
- Current market price per share, ₹60.
- Company's tax rate is 30% and shareholder's personal tax rate is 20%.

**Required :**

(i) Calculate the post tax average cost of additional debt.

(ii) Calculate the cost of retained earnings and cost of equity.

(iii) Calculate the overall weighted average (after tax) cost of additional finance.

**OR**

Q.2) The capital structure of Hindustan Trades Ltd. as on 31-3-2014 is as follows : **15**

| | |
|---|---|
| Equity Capital : 100 lakhs equity share of ₹10 each | ₹10 crores |
| Reserves | ₹10 crores |
| 14% Debentures of ₹100 each | ₹10 crores |

For the year ended 31-3-2014 the company has paid equity dividend at 20%. As the company is a market leader with good future, dividend is likely to grow by 5 % every year. The equity shares are now traded at ₹80 per share in the stock exchange. Income tax rate applicable to the company is 50%.

**Required :**

(a) The current weighted average cost of capital.

(b) The company has plans to raise further ₹ 5 crores by way of long term loan at 16% interest. When this takes place the market value of the equity shares is expected to fall to ₹50 per share. What will be the new weighted average cost of capital of the company?

Q.3) The following details relating to a company are given: **15**

| | |
|---|---|
| Sales per annum | 1,00,000 units |
| Variable Cost | ₹90 per unit |
| Fixed Cost including Interest per annum | ₹18,00,000 |
| P/V Ratio | 25% |
| 10% Debentures | ₹30,00,000 |
| Equity Shares Capital (shares of ₹ 10 each ) | ₹40,00,000 |
| Corporate Tax rate | 30 % |

Calculate: i) Operating Leverage ii) Financial Leverage iii) Combined Leverage iv) Earnings per share.

**OR**

Q.3) The capital structure of RST Ltd. is as follows: **15**

| **Particulars** | ₹ |
|---|---|
| Equity Share of ₹10 each | 8,00,000 |
| 10 % Preference Share of ₹100 each | 5,00,000 |
| 12 % Debentures of ₹100 each | 7,00,000 |
| | 20,00,000 |

Additional information:

Profit after tax ( Tax rate 30%) are ₹2,80,000.

Operating Expenses (including Depreciation ₹96,800) are 1.5 times of EBIT.

Equity Dividend paid is 15%.

Market price of Equity Share is ₹ 23.

Calculate :

(i) Operating and Financial Leverage

(ii) Cover for Preference and equity Dividend

(iii) The Earning Yield ratio and Price Earning ratio

Note: All operating expenses (excluding depreciation) are variable.

**Q.4. A) Multiple choice Questions:** **(5)**

i) Profit maximization does NOT take into consideration

a) Risk and cash flow b) Cash flow and stock price

c) Risk and EPS d) EPS and stock price

ii) Calculate the present value of ₹1000 to be received at the end of 8 years. Assume an interest rate of 7 percent.

a) ₹582.00 b) ₹1,718.19
c) ₹531.82 d) ₹5,971.30

iii) Net Operating Profit Ratio

a) Balance Sheet Ratio b) Revenue Statement Ratio
c) Composite ratio d) None of the above

iv) Marginal cost of Capital is the cost of

a) Additional sales b) Additional Funds
c) Additional Interest d) None of the above

v) Debt Financing is a cheaper source of finance because of

a) Time value of Money b) Rate of Interest
c) Tax- deductibility of Interest d) Dividends not Payable to lenders

**B) Match the Column:** **(5)**

| Column A | Column B |
|---|---|
| i) Value of Unlevered firm ($V_u$) | a) $\frac{\textit{Percentage changes in EPS}}{\textit{Percentage change in sales}}$ |
| ii) Degree of Combined Leverage | b) Dividend payout ratio, Debt service ratio |
| iii) Cost of debenture issued / redeemable at par | c) Accounting Values |
| iv) Coverage ratios | d) EBIT / $K_o$ |
| v) Book value weights | e) $K_d$ = I ( 1- t) |

**C) True or false:** **(5)**

i) Operating leverage may be defined as Contribution ÷ EPS.
ii) The equity shareholders get the residual profit of the firm.
iii) Cost of equity share capital depends upon the market price of the share.
iv) Quick Assets = Current Assets – (Stock – Prepaid Expenses).
v) Effective and nominal rate of interest remain the same irrespective of the frequency of compounding.

**OR**

**Q 4). Write Short notes:** **(15)**

i) Perpetuity
ii) Importance of financial management for different stakeholders
iii) Debt Equity Ratio
iv) Cost of retained earnings
v) Features of optimal capital structure

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