CODE : NAIROBI

Time : 2 Hrs. **Marks : 60**

Instructions :-
1) **All questions are compulsory**
2) **All questions carry equal marks**
3) **Figures to the right indicate full marks.**

Q.1 From the following information furnished for 3 companies, prepare income statement of each company. **15**

	Alpha	Beeta	Gama
Financial leverage	4	2	2.5
Interest	Rs.3,000	Rs.10,000	Rs. 6,000
Operating leverage	5	3	3
Variable Cost (% of sales)	75%	50%	40%
Income Tax Rate	35%	35%	35%

OR

Q.1 From the following information prepare Cash Budget for the period July 07 to December 07. **15**

Opening Cash Balance Rs.40,000

Month	Sales	Purchase	Wages	Overheads
May	340,000	80,000	15,000	22,000
June	320,000	84,000	16,000	24,000
July	364,000	83,000	16,800	19,000
Aug	310,000	83,000	12,000	26,000
Sept	330,000	76,000	18,000	24,800
Oct	400,000	68,000	16,000	22,300
Nov	360,000	70,000	17,000	19,000
Dec	440,000	58,000	16,500	20,600

Additional information :-

a) One month credit is allowed by the suppliers & to the customers.

b) Lag in payment - Wages :- 3/4th is paid in the same month & 1/4th in the next month; Overheads - Paid in next month

c) Cost of Machinery purchased for Rs.100,000 in July 07 is payable on delivery.

d) Building purchased in Aug.07 is to be paid in 2 equal instalments in Sept. & Dec. 07.

e) Commission @ 3% on sales is payable two month after sales.

Q.2 Crystal ceramics is going to produce and sale 7,000 units per month. The material cost per unit is Rs.550. The direct labour cost is Rs.10,00,000 per month. Expenses are Rs.1,05,000 per month. The sale price is fixed by calculating profit at 20% on sale price. Calculate the working capital requirement by taking into consideration folloiwing information :- **15**

1) Stock of raw material will be two months
2) Process time is one month
3) Stock of finished goods will be 2 months
4) Credit allowed to customers is 2 months.
5) 25% of expenses are paid one month in advance Balance 75% is paid after time lag of one month.
6) Time lag ion payment of wages is one month.

... basis and suppliers of balance 80%

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Q.2 A) Following is the data for Ariel Ltd. **10**

Annual consumption	-	4000 units
Ordering cost	-	Rs.50 per order
Carrying cost	-	Rs.2 per unit

Calculate

a) EOQ per order in units
b) Total Ordering Cost
c) Total Carrying cost
d) "Total of Ordering cost and Carrying cost is lowest at Economic Order Quantity." Explain with 5 examples.

B) A Company is currently selling 12000 units at Rs.50 per unit. Variable cost per unit is Rs.40. Fixed cost is Rs.60,000. At present, the company gives credit of one month which is proposed to be extended to two months, whereby it will be able to increase sales by 3000 units. If the required rate of return is 16%, should the new credit policy be implemented? **5**

Q.3 A Company is considering two projects 'A' and 'B'. The following data are available ---- **15**

Particulars	Project A(Rs.)	Project B (Rs.)
Investment	140,000	140,000
Cash Flows		
Year 1	20,000	100,000
2	40,000	80,000
3	60,000	40,000
4	100,000	20,000
5	110,000	20,000

Select the most suitable project by using the following methods :-

a) Pay back period
b) Average Rate if Return

OR

Q.3 Zeal Ltd. decided to undertake a project for putting a new product in the market. The company's required rate of return is 12%. It was estimated that the project would have a life of 5 years. The project would cost an investment of Rs.40 lakhs in Plant & Machinery. The scrap value of plant and machinery at the and of 5 years is estimated at Rs. 5,00,000. Depreciation is provided on straight line basis. Profits before depreciation and tax are as follows. **15**

year	**Amount**
1	1300,000
2	800,000
3	1300,000
4	1000,000
5	1000,000

Tax Rate is 35%

Ascertain the Net Present value and profitability Index of the project.

Q.4 A) Explain the various classes of debentures. **15**

B) What are merits and demerits of debenture finance?

OR

Q.4 Explain the features of Term Loans. **15**