11 / SY BBI 2/3/15 L

FM-II

N03ABL

Time=2 ½ Hours **Total = 75 marks**

Q.1. Write Short Notes (15 Marks)

a. Explain Pay Back Period and Average Rate of Return (ARR).

b. Factors determining Working Capital.

c. Operating and Financial Leverage.

d. Role of Chief Financial Officer

5. Objectives of Financial Management.

Q.2. Solve (Any 3) (15 Marks)

1. Cost of Investment Rs.800000. Annual Cash Inflows for 5 years = Rs. 50000. Calculate Simple Pay Back Period.
2. NPAT = Rs.800000, No. of Shares= 40000, Market Price per share = Rs.20. Growth Rate = 8%. Calculate Cost of Equity (Ke).
3. EBIT = Rs.1000000, 8% Debentures = 4000000. Calculate Financial Leverage.
4. If Current Assets = Rs.800000, Creditors = Rs.100000, Outstanding expenses = Rs.40000, Bank Overdraft = Rs.70000. Calculate Working Capital.
5. If Financial Leverage = 4:1. Interest = 100000. Calculate EBIT.

Q.3. Happiness Forever Ltd. has the following capital structure: (15 Marks)

Particulars	Amt. (Rs.in lakhs)
Equity Shares	60
7% "A" Preference Shares	40
8% Debentures	50
Total	150

The market price of the company's equity shares is Rs.40 per share. It is expected that the company will pay next year a dividend of Rs.4 per share on the face value of Rs.10. The company's growth prospects are 5% per annum. Assuming corporate Tax rate @ 35% you are required to:-

(i) Calculate the WACC on existing capital structure.

(ii) Calculate the new WACC, if the company raises additional Rs.70 lacs as under:

Particulars	Rs. (in lakhs)
Equity Shares	25
8% "B" Preference Capital	20
10% Debentures	25
TOTAL	70

This would result in increasing the expected dividend to Rs.4.50 per share and leave the growth rate unchanged at 5% and the anticipated market price of the equity shares would remain at Rs.40.

OR

Q.3.A company is considering the 2 mutually exclusive projects. The finance director considers that the project with higher **NPV** should be chosen; whereas the managing director thinks that one with higher **ARR** should be considered. Both the projects have got a useful life of 5 years and the cost of capital is 10%. The initial outlay is Rs.200000. (15 Marks)

The future cash inflows from the project X and Y are as under:

Year	Project X	Project Y
1	35000	118000
2	80000	60000
3	90000	40000
4	75000	14000
5	20000	13000

You are required to evaluate the projects on the basis of NPV and ARR methods and advise the company as to which project is suitable for investment.

Q.4.A company is having its level of activity at 36000 units which is evenly spread throughout the year. The cost statement of the company is as follows:- (15 marks)

Particulars	Rs.
Raw Material	5
Direct Labour	3
Overheads	2
Profit	2
Selling Price	12

Other information:-

i) Raw Materials will remain in stock for 1 month.

ii) Processing time is NIL

iii) Finished goods remain in stock for 2 months

iv) Credit allowed by suppliers of Raw Materials is 1 month

v) Credit allowed to debtors is 2 month

vi) The company intends to maintain cash on hand and balances at bank equal to 1 month's raw material cost, 2 month's labour cost and 3 month's overhead cost for the contingencies

vii) 20% of sales are for cash.

You are required to prepare a statement showing Working Capital requirements of the company.

OR

NO3ABL

Q.4. X & Y have provided the following information. Calculate Operating, Financial and Combined leverage and find out which firm do you consider risky? (15 Marks)

Particulars	X Ltd.	Y Ltd.
Sales in units	40000	40000
Selling price per unit	60	60
Variable cost per unit	20	25
Fixed Financing Cost	Rs.100000	Rs.50000
Interest expense	Rs.300000	Rs.200000

Q.5. From the following data provided by M/S Alpha Ltd estimate Working Capital requirements for the year ended 31st March 2014. (15 Marks)

a. Estimated activity for the year 260000 units (52 weeks)
b. Raw Materials remain in stock for 2 weeks and production cycle takes 2 weeks.
c. Finished goods remain in stock for 2 weeks.
d. 2 weeks credit is allowed by suppliers.
e. 4 weeks credit is allowed to Debtors
f. Time lag in payment of wages and overheads is 2 weeks each
g. Cash & Bank balance to be maintained Rs.25000
h. Selling price per unit is Rs.15
i. Analysis of cost per unit as follows:-
1. Raw Materials 33 1/3% of sales
2. Labour and Overheads in the ratio of 6:4 per unit
3. Profit is at Rs.5 per unit.

Assume that operations are evenly spread throughout the year; Wages and Overheads accrue similarly. Manufacturing process required feeding of material fully at the beginning. Degree of WIP is 50%. Debtors are to be estimated at Selling Price.

OR

Q.5. Thane Industries Ltd. is considering purchase of one machine from two machine models ABX and PQX. The initial cost of ABX machine is Rs.150000 an that of PQX is Rs. 125000. Both machines have 5 years of life with no scrap value. Company provides depreciation on SLM. Income tax rate is 30%. Expected profit before depreciation and tax for both the machines is as follows:-

Year	ABX	PQX
1	42000	35000
2	45000	42000
3	52000	48000
4	55000	52000
5	60000	60000

The cost of capital is 10%. Evaluate both the projects as per (i)NPV (ii) Discounted Pay Back period (iii) Profitability Index.

Q.3.A company is considering the 2 mutually exclusive projects. The finance director considers that the project with higher **NPV** should be chosen; whereas the managing director thinks that one with higher **ARR** should be considered. Both the projects have got a useful life of 5 years and the cost of capital is 10%. The initial outlay is Rs.200000.

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(15 marks)

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Direct Labour	3
Overheads	2
Profit	2
Selling Price	12

Other information:-

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vii) 20% of sales are for cash.

You are required to prepare a statement showing Working Capital requirements of the company.

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