

24/3/14

MN3AAL

Sy B I
Fin. mgmt

TIME- 2HOURS

MARKS-60

Note: 1) All questions are compulsory, subject to internal choice.

2) Each question carries 15 marks each

3) Use of simple calculators is permitted

4) Marks are allotted for neatness and proper presentation of the answers.

(8)

Q1 a) A company where cost of capital is 12% and projects 'B'

Particulars	Project B
Investments	1,40,000
Cash flows	
Year 1	1,00,000
2	80,000
3	40,000
4	20,000
5	20,000

Calculate:

- Pay back period
- Net present value
- Profitability index

The present values of the 1 at 12% are

Year	Value
1	0.9
2	0.8
3	0.7
4	0.6
5	0.55

OR

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The Company wants to buy "Machine X" the initial outlay is 2,00,000

The cash inflows are

Year	Machine
1	35,000
2	80,000
3	90,000
4	75,000
5	20,000

You are required to find out

- a) Pay back period
- b) Average rate of return
- c) Net present value

b) Krishna Ltd has the following

(in lakh)

Equity shares	80
9% 'A' Preference Shares	25
12% Debentures	55
	160

The market price of the company's equity shares is Rs 40/- it is expected that the company would pay dividend of Rs 3 per shares. The company growth rate is 7%. Taxation of corporate is 35%.

1. Compute weighted average cost of capital based on existing capital structure.
2. Compute new average cost of the company additional debt as loan for 50 lakh

The dividend expected is 3.50 per equity share and growth rate remain unchanged, market price falls to Rs 35

OR

PQR Ltd issued 2000 equity shares of Rs 100 each as fully paid. The company has earned a profit of Rs 25000 after tax. The market price of these shares is Rs. 180 per shares. Dividend has been paid at the rate of Rs. 10 per shares

Find out cost of equity capital as under:

1. Dividend yield method
2. Earning yield method

Q2 a) The financial data of P and Q for the year ended.

Particulars	P	Q
Variable cost as a percentage of sales	75	50
Interest expenses	300	1000
Degree of operating leverage	6	2
Degree of financial leverage	4	2
Income Tax (%)	40	40

Calculate all the leverage and prepare income statement

OR

Sales (in unit)	25,000
Interest per annum	30,000
Selling price per unit	24
Tax rate	50%
Variable cost per unit	16
No of equity shares	10,000
Fixed cost per annum	80,000

Compute:

1. EBIT
2. EPS
3. Operating Leverage
4. Financial Leverage
5. Combined leverage

(7)

b) From the following details A & B given

Particulars	A	B
Operating Leverage	4	4.5
Combined Leverage	8	11.15
9% Debentures	1,00,000	1,20,000
PV Ratio	20%	25%
Tax Rate	50%	50%

Prepare income statement.

OR

A firm has sales Rs 150 lakhs, variable cost of Rs 84 lakhs and fixed cost is 12 lakhs. It has a debt of Rs 90 lakh at 9% and equity is of Rs 110 lakhs.

- What is the firm's ROI?
- Does it have favorable financial leverage?
- Is the firm belongs to an industry whose asset turnover is 2, does it have high or low asset leverage?
- What is the operating, financial and combined leverage?

(8)

Q3 a) Production of a company during the previous year was 25000 units. The expected ratio of cost of selling price

Raw material: 45%

Direct wages: 15%

Overhead: 20%

The raw materials remain in stock for 1 month. Every unit of production remain in the process of 1 ½ month and it is assumed to be considering of 100% raw material and wages and overheads, finished goods remain in warehouse for 2 months. Credit allowed by the conditions is 2 months. Credit given to debtors is 2 ½ months.

Cash in hand = 50,000

Lag in payment of wages = 1 ½ month

Lag in payment of expenses ½ month. Selling price is 25 per unit, both production and sales in a regular cycle. Make 10% provision for contingency.

OR

MP industries Ltd. working capital 1,30,000 units, the sales price is Rs 250. The proportion cost of material 40%, wages 20%, overheads 12%

- Cash transactions are 25% for sales and 20% for purchase.
- The stock holding of materials 2 weeks and finished goods equal 4 weeks.
- Processing time is 2 weeks
- Credit allowed and enjoyed is 4 weeks
- Time lag for wages is 2 weeks and overhead 3 weeks. Consider as 52 weeks.

b) From the following prepare statement showing the working capital requirement.

Sales		6,00,000
Expenses		
Material	3,00,000	
Labour	1,20,000	
Expenses	80,000	5,00,000
		1,00,000

Additional Information

1. Production and sales taken place evenly throughout the year
2. Raw materials are carried in stock for 2 months and finished goods are 1 months
3. The production cycle taken 1 month
4. There is a purchase of raw materials and sales of finished goods to give 2 ½ months credit
5. 30% of sales in cash
6. Cash on hand is estimated to be 15000 rs
7. Lag in overhead and wages is 1 month each.

OR

From the following information, prepare a statement the working capital requirement

Particulars		Amount
Sales		16,00,000
Expenses		
Material X	4,00,000	
Material Y	2,00,000	
	6,00,000	
Wages	3,00,000	

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Overheads	4,00,000	13,00,000
		3,00,000

1. Production and sales to be place evenly throughout the year.
2. Both types of raw material are carried in stock in 1 month and finished goods for half month
3. 1 month credit is granted for sale of finished
4. 3 months credit is granted by the suppliers for purchase of material X and 2 months credit in material Y.
5. Cash in hand 61,000
6. Lag in payment of wages and overhead is 1 month each.
7. The net estimated required is 60,000, the need of additional working capital is obtained in the form of overdraft.

(15)

Q4) Write 3 out of 6 questions

1. What is the buyback of shares and effects?
2. What is the payback period and net present value?
3. Explain working capital cycle?
4. Difference between business risk and financial risk
5. What is a preference shares? Explain its type?
6. Write the format of leverage?

Wages	6,00,000	
Material Y	2,00,000	
Material X	4,00,000	
Expenses		10,00,000
Sales		10,00,000
Amount		