Q.P. Code :05392

[Time: 2 Hrs 30 Mins] **[Marks:75]**

Please check whether you have got the right question paper.

N.B:
1. **All** questions are **compulsory.**
2. **Working** notes form part of your answer.
3. **Use** of simple calculator is permitted.

Q.1 A. Rewrite the Following statements and fill in the blank **(Any 8)** **08**

1) The beta of a market is ---------------------------.
2) Financial Leverage is zero, if ---------------is zero.
3) Risk-Return trade off implies ----------------of risk.
4) According to the net operating income approach capital structure of the firm--------------influence cost of capital and value of the firm.
5) High Dividend Payout Ratio leads to -------------retained earnings.
6) -----------------capital structure is the particular combination of debt and equity that maximizes firm value.
7) -----------------Model attempts at optimization of cash balance.
8) ----------------involves a trade-off between costs and benefits of receivable.
9) When the capital market is in equilibrium, required rate of return and expected rate of return are ----------------.
10) Bad debt cost is not borne by factor in case of -------------

Q.1 B. Match the Column **(Any 7)** **07**

1. Operating Leverage	A. Opportunity Cost
2. Financial Leverage	B. Internal rate of return
3. Composite cost	C. There is no taxes
4. Cost of Additional Funds	D. Cash exactly as per need
5. Implicit Cost	E. Not relevant to the valuation of firm
6. Explicit Cost	F. Independent to the Valuation of Firm
7. Net Operating Income Approach	G. Marginal Cost
8. Net Income Approach	H. Change in profits to change in sales
9. Optimal Cash Balance	I. Weighted average cost
10. MM Approach	J. Change in EPS to change in EBIT

Q.2 A. The expected returns and Beta of stocks are given below **08**

Stock	D	C	M
Expected Return	0.10	0.15	0.20
Beta Factor	1.5	1.0	1.0

If risk free rate is 8% and expected rate of return on the market portfolio is 15% using CAPM method comment on valuation of stock and appropriate strategy.

Q.2 B. The combined Leverage and Operating Leverage of a company are 2.5 and 1.25 respectively. Find out the Financial Leverage and PV ratio given that: Equity dividend is Rs. 2 per share, Interest Payable is Rs. 1,00,000 Sales Rs. 10,00,000 and Fixed Cost Rs. 50,00,000 **07**

OR

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Q.2 A. The shares of Baba Ltd are selling at Rs 20 per share. It had paid Rs 2 per share dividend last year. The estimated growth of company is approximately 5% per year. Determine the estimated market price of the equity shares if the anticipated growth rate rises to (1) 8% and falls by (2) 2%. Treat each case individually Ignore the dividend tax. **08**

Q.2 B. The Manju has the following specific cost of capital along with the indicated book and market value weights: **07**

Type of capital	Cost (Rs. In lakhs)	Book value weights	Market value weights
Equity	0.30	0.50	0.60
Preference shares	0.15	0.30	0.20
Long-term debt	0.10	0.20	0.20

Calculate the weighted cost of capital, using book and market value weights.

Q.3 Prepare a cash budget of Star Trading Ltd from the following information for Three months commencing from April 2016. **15**

Month	Sales(Rs.)	Purchases (Rs.)	Expenses (Rs.)
Febuary2016	4,50,000	50,000	60,000
March2016	6,50,000	65,000	75,000
April 2016	9,00,000	80,000	90,000
May 2016	12,00,000	1,10,000	1,20,000
June 2016	15,50,000	1,75,000	1,85,000

Additional Information:

a. Total sales comprises of 40% of cash sales and 60% credit sales.
b. Credit purchases are 50% of total purchases throughout.
c. 50% of credit sales collected in the month of following the sales, balance in the second month.
d. 50% of credit purchases are paid in the month following the purchases, balance in the second month.
e. Wages for April 2016 are Rs. 10,000 which increases every month by 20% of the previous month and are paid with a lag of a month.
f. Opening cash balance of Rs. 1,80,000 as at 1st April 2016.
g. Expenses of each month are paid with a time lag of half month.
h. Income tax paid in the month June 2016 Rs. 75,000.

OR

Q.3 A company's capital structure consists of the following: **15**

Equity shares of Rs.100 each	Rs.20 lakhs
Retained earnings	Rs.10Lakhs
9% Preferences shares	Rs.12 lakhs
7% Debentures	Rs.8 lakhs
Total	Rs.50 lakhs

The company earns 15% on its capital. The income –tax rate is 35%. The company requires a sum of Rs 25 lakhs to finance its expansion programme for which following alternatives are available to it:
Issue of 20,000 equity shares at a premium of Rs 25 per share.
Issue of 10% preferences shares at par.
Issue of 8% debentures at par.
It is estimated that P/E ration in the case of equity, preference and debenture financing would be 21,17 and 15.7 respectively.
Which alternative would you recommend and why?

[P.T.O]

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Q.4 Jiggy Wiggy Ltd has an annual sale of Rs 30, 00,000/- by extending 20 days credit to its customers. The finance feels that sales can pick up considerably if customers are offered higher credit period. The company is therefore considering shift in credit policy. The following additional information is available: **15**

1. Variable costs are 50% on Sales.
2. Fixed costs Rs 5, 00,000 /- p.a.
3. Required (pre tax) return on investment is 20% p.a.

Credit Policy	Increase in Average Collection Period (Days)	Expected Annual Sales (Rs.)
I	10	60,00,000
II	15	70,00,000
III	30	1,00,00,000

Determine which policy the company should adopt assuming that debtors are valued at total cost and 1 year = 360 days.

OR

Q.4 A. Aarush Ltd is in the need of Rs. 1, 00,000 to finance its increased net working capital requirements. The finance manager of the company believes that its various financial costs and share price will be unaffected by the selection of a particular plan, since a small sum is involved. Debentures will cost 10%, preference shares 11%, and equity shares can be sold for Rs.25 per share. The tax rate is 35%. **08**

Sources of funds	Financial Plans(Per cent)		
	1	2	3
Equity shares	100	30	50
Preferences shares	0	10	20
Debentures	0	60	30

Determine the financial break-even point.
Which plan has greater risk? Assume EBIT level of Rs. 50, 00, 000.

Q.4 B. The following details of Kasha ltd for the year ended 31/3/2016 are furnished: **07**

Operating Leverage	3:1
Financial Leverage	2:1
Interest charges p.a.	Rs.20 Lakhs
Corporate Tax rate	50%
Variable cost as percentage of sales	60%

Prepare the income statement of the company.

Q.5 A. Distinguish between over capitalization and under capitalization. **08**
B. Discuss various objectives of Receivable Management. **07**

OR

Q.5 Write Short Notes **(Any 3)** **15**

1. Capital asset pricing model.
2. Assumptions are of M M Approach of dividend policy.
3. Optimal Capital Structure
4. Systematic risk.
5. Cash management.
