04 / Accountancy : Paper III - Advanced Financial Management.

(3 Hours) (Total Marks : 100)

Please check whether you have got the right question paper.

N.B.:
1) **Question No.1** and **Question No. 2** are **Compulsory** and carry **20** and **16 marks respectively**.
2) Solve any **four** questions from **Question No. 3** to **Question No. 9**, each carrying **16 marks**.
3) **Working Notes** and assumptions should **part of your answers**.
4) Use of **simple calculator** is **allowed**.

1. WILLS CUP Ltd. has the following capital structure at 31st March, 2019, which is considered to be optimum : **(20)**

Particulars	₹
14% Debentures	3,60,000
12% Preference Share Capital	1,20,000
Equity Share Capital (₹2,00,000 Shares)	19,20,000

The company's Equity Share has a current market price of ₹375 per share. The expected dividend per share is 50% of EPS of the Year ended 31st March, 2019. Net Profit after Tax and Preference Dividend was ₹15,00,000. The growth rate is 12%.

The company can issue 14% new Debenture which is currently selling at ₹98. The new preference share can be sold at a net price of ₹9.80, paying a dividend of ₹1.20 per share. The company's tax rate is 50%.

Calculate the after tax cost of :

a) New Debentures and New Preference Share Capital.
b) Earnings Per Shares (EPS).
c) Calculate Weighted Average Cost of Capital (assuming existing capital structure is optimum).

2. A) State whether the following statements are True or False and rewrite them : **(08)**

1) Quick Ratio measures immediate solvency of the company.
2) Trading organization requires more working capital.
3) The project with the negative Net Present Value should be considered.
4) Default cost is irrelevant as one of the cost of receivable.
5) Operating leverage indicates fixed operating costs.
6) Ordering cost is the cost of placement of order.
7) Overdraft is a temporary advance from the bank given to Saving Accountholder.
8) Public deposits are secured loans from public.

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2. B) Match the Columns : **(08)**

Column 'A'	Column 'B'
• P/E Ratio	• $\frac{\text{Miminum Stock Level} + \text{Maximum Stock Level}}{2}$
• EOQ	• Wealth Maximization
• Stock Turnover Ratio	• Weighted Average Cost of Capital
• Composite Cost	• Price / Earnings Ratio
• Average Stock Level	• Most Economical Order Size
• Discounting Factor	• Fixed Interest Costs
• Financial Leverage	• Profit Maximization
• Objective of Financial Management	• Deciding present value of future amount
	• $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$

3. From the following particulars, draw up the Balance Sheet of ASIA CUP Ltd. : **(16)**

Current Ratio	2.5 : 1
Quick Ratio	1.5 : 1
Net Working Capital	₹90,000
Stock Turnover Ratio (Cost of Sales / Closing Stock)	6 times
Gross Profit Ratio	20% on sales
Fixed Assets Turnover Ratio (Cost of Sales / Fixed Assets)	2 times
Average Collection Period	60 days
Fixed Assets to Shareholders' Net Worth	0.80
Reserve and Surplus to Share Capital	0.50

Note :

a) Quick liabilities are equal to Current Liabilities.

b) Long-term liabilities are 75% of Current Liabilities.

c) Assume 360 days in a year.

4. IPL Ltd. manufacturer of Set Top Box give you the following information in respect to two components namely P and R used in the manufacturing process : **(16)**

Normal Usage	200 units per week each
Maximum Usage	300 units per week each
Minimum Usage	100 units per week each

Reorder Quality :

P	1,600 units
R	2,400 units

Reorder Period for :

P	2 to 4 weeks
R	1 to 2 weeks

Calculate for each component :

1) Reorder Level,

2) Minimum Level,

3) Maximum Level,

4) Average Stock Level.

5. The 'ICC Ltd.' is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the company has the annual credit sales of ₹25 lakhs and accounts receivable turnover ratio of 4 times a year. The current level of loss due to bad debts is ₹75,000. The required rate of return is 25% on investments in receivables (based on variable cost). The company's variable cost is 70% of selling price. Given is the following information, which is the better option? [Assume 360 days in a year]

	Present Policy	Option 1	Option 2
Annual Sales (₹)	25,00,000	30,00,000	33,75,000
Account Receivable Turnover	4 times	3 times	2.4 times
Bad Debts (₹)	75,000	1,50,000	2,25,000

6. YUM HOSPITAL Ltd. is considering to purchase a Diagnostic Equipment costing ₹80,000. The projected life of the equipment is 8 years, and it has an expected salvage value of ₹6,000 at the end of 8 years. The annual cash operating cost of the equipment is ₹7,500. It is expected to generate Earnings before Depreciation and Tax of ₹40,000 per year for 8 years. Presently, the hospital is outsourcing the diagnostic work and is earning commission income of ₹12,000 per annum, net of taxes. Tax rate is 40%. Whether it would be profitable for the hospital to purchase the equipment? **(16)**
Give your recommendation under Net Present Value and Profitability Index Method.
PV Factors at 10% are given below :

Year	PV Factor @10%
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	0.564
7	0.513
8	0.467

7. The sales forecast for January to May, 2019 and actual sales for November and December, 2018 for PEPSI CUP Ltd. are given as under : **(16)**

Month	Sales (₹)
Actual	
November, 2018	80,000
December, 2018	70,000
Forecast	
January, 2019	80,000
February, 2019	1,00,000
March, 2019	80,000
April, 2019	1,00,000
May, 2019	90,000

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The following other information are also available :

1) 20% of sales in cash and rest are on credit, payment of which is realized in the third month.
2) Amount of purchase is budgeted at 60% of the sales turnover of a month and paid in the third month of purchase.
3) Variable expenses are 5% of sales, time lag of payment 1 month.
4) Commission on credit sales @ 5% is payable in the third month.
5) Payment of purchase of fixed assets ₹50,000 in March, 2019.
6) There will be an opening cash balance of ₹25,000 on 1st January, 2019.

You are required to prepare a Cash Budget for five months from January to May, 2019.

8. SAHARA CUP Ltd. needs ₹12,00,000 for the installation of a new factory which is expected to earn an EBIT of ₹2,00,000 per annum. The company has the objective of maximizing the earnings per share. **(16)**

It is considering the possibility of issuing equity shares plus raising a debt of ₹2,00,000 or ₹6,00,000 or ₹10,00,000. The current market price of the share is ₹40 and will drop to ₹25 if the borrowings exceed ₹7,50,000. Assuming the tax rate to be 50%. The costs of borrowing are indicated as under :

Amount of borrowing	Rate of Interest
Up to ₹2,50,000	10%
Above ₹2,50,000 to ₹6,25,000	14%
Above ₹2,50,000 to ₹6,25,000	16%

Find out the EPS under different options and suggest the best financing.

9. Write short notes **(Any Four)** : **(16)**

1) Profit Maximization v/s. Wealth Maximization
2) Combine Leverage
3) ABC Analysis of Inventory
4) Net Present Value
5) Significance of the Ratio Analysis
6) Investments Objectives