

May 2018

Q.P. Code :24664

[Time: Three Hours]

[Marks:60]

Please check whether you have got the right question paper.

- N.B:
1. Question.No.1 is compulsory.
 2. Answer any four questions from Q.2 to Q.7 of 10 Marks Each.
 3. Use of Simple Calculators or Scientific calculators is permitted.
 4. Working notes and assumptions should form a part of your answer.

Q.1 A) The following financial information for Johanson Co. are reproduced below.

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Johanson Co.		
Statement of Financial Position for 2015 and 2016		
	(Rs. In Thousands)	
Liabilities	2015	2016
Equity Share Capital	3,000	3,000
Retained Earnings	300	1,100
Long Term Debt	4,000	3,000
Current Liabilities		
Creditors	700	1,400
Current portion of Long term debt	500	1,000
	8,500	9,500
Assets		
Land	500	500
Building and Equipment (net)	4,000	4,700
Current Assets		
Cash and Temporary Investments	380	400
Debtors	1,500	1,700
Inventory	2,120	2,200
	8,500	9,500

Johanson Co.
Statement of Income and Retained Earnings for the year ended 2016.
(Rs. In Thousands)

Net Sales		28,800
Less Cost of Goods Sold	15,120	
Selling Expenses	7,180	
Administrative Expenses	4,100	
Interest	400	
Income Tax	800	27,600
Net Income		1,200
+ Profit at the beginning of the year		300
Total Profit		1,500
Cash dividend declared and paid		400
Retained Earnings		1,100

Calculate the following Ratios.

- i. Operating Profit Margin
- ii. Inventory Turnover Ratio
- iii. Debtors Collection Period
- iv. Dividend payout Ratio

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TURN OVER

B) Explain the following concepts in one or two sentences.

- a. Leasing 02
- b. Net Present Value 02
- c. Credit Rating 02
- d. Due Diligence 02

Q.2 a) The following data is available for Tejas Ltd: EPS is Rs 2, rate of return is 18% and cost of capital is 16%. Calculate the Price per share using the Walters Model if 05

- a. The dividend payout is 80%.
- b. The dividend payout is 50%.

b) A bond of Rs. 1000 face value provides an annual return of 8% and pays Rs. 1250 at the time of maturity, which is 10 years from now. If the investor's required rate of return is 12%, what should be the price of the bond? 05

Q.3 From the following information, you are required to estimate the Net Working Capital requirement: 10

Particulars	Cost per unit in Rs.
Raw Materials	400
Direct Labour	150
Overheads (Excluding Depreciation)	300
Total Cost	850

Additional Information

1. Selling price per unit Rs. 1,000
2. Output 52,000 units
3. Raw materials in stock average 4 weeks
4. Work in progress 2 weeks
5. Finished goods in stock average 4 weeks
6. Credit allowed by suppliers average 4 weeks
7. Credit allowed by debtors average 8 weeks
8. Cash at bank Rs. 50,000

Q.4 Xerox Ltd has a debt equity ratio of 1:3. The cost of equity is 18% and the pre-tax cost of debt is 10%. The tax rate of the company is 40%. It wants to expand the market by going for a new product for which it requires Rs. 45 million and would generate before tax revenue of 8 million for the coming 10 years.

Required

- a. Calculate the weighted average cost of capital 02
- b. Calculate NPV and Profitability Index 06
- c. Should the company accept the project and why 02

Q.5 Prepare Monthly Cash forecast for the company XYZ Ltd, for the quarter ending 31st March, from the following details. 10

1. Opening Balance as on 1st January is Rs. 22,000
2. Cash Sale is 20% and credit sale is 80%.

Month	Sale	Purchase of Materials
November	1,00,000	-
December	1,00,000	40,000
January	1,00,000	40,000
February	1,00,000	40,000
March	1,20,000	48,000

TURN OVER

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3. The receivables from credit sales are expected to be collected as follows:
50% of the receivables on an average of one month from the date of sales; and balance 50% after two months from the date of sale. No bad debts on the realization of sales.
4. The payments for the purchases are made approximately a month after the purchase.
5. Other anticipated receipt is Rs. 5,000 from the sale of machine in March.
6. Miscellaneous cash purchase of Rs.2000 per month.
7. The wages payments are expected to be Rs. 15,000 per month
8. Manufacturing expenses are expected to be Rs. 20,000 per month
9. General selling expenses are expected to be Rs. 10,000 per month
10. A machine worth Rs. 50,000 is proposed to be purchased on cash in March.

- Q.6 a) Explain the difference between Profit Maximization and Wealth Maximization objective. 05
- b) What is the need of Working Capital? How the operating cycle can be calculated? Explain with example. 05
- Q.7 Write short notes any two of the following.
- | | | |
|----|------------------------------|----|
| a) | Infrastructure Financing | 05 |
| b) | Long term Sources of Finance | 05 |
| c) | Letter of Credit | 05 |
| d) | Foreign Direct Investment | 05 |

TURN OVER

Present Value of a Rupee

	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061

TURN OVER

Present Value of an Annuity

	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	6.604	6.265	5.954
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373	6.047
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840	6.467	6.128
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938	6.550	6.198
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025	6.623	6.259
