Paper / Subject Code: 85603 / Financial Management - III

TYBAF / Sem-VI / 04.05.19

(2 ½ Hours) **Marks : 75**

Q.1. A) Select the correct alternative from the choices given below and rewrite the statement. (Any 8) **(8)**

1. Under Net Asset Value method value of shares are depends on ________
   a) Net asset available to equity shareholders
   b) Net assets available to debenture holders
   c) Net assets available to preference shareholders
   d) None of the above

2. Fair value of the share is equal to ________
   a) Intrinsic value only
   b) Yield value only
   c) Average of Intrinsic value and Yield value
   d) None of the above

3. Amalgamation is governed by ________
   a) AS14
   b) AS 3
   c) AS 21
   d) AS 32

4. A new company is formed under ________
   a) Absorption
   b) Reconstruction
   c) Amalgamation
   d) All of the above

5. Balance of capital reduction should be transfer to ________
   a) Security premium
   b) Capital reserve
   c) Share capital
   d) Profit & Loss Account

6. In case of Lease legal title is with ________
   a) Lessor
   b) Lessee
   c) Agent
   d) None of the above

7. Internal reconstruction requires _________
    a) Special resolution passed at General meeting
    b) Special resolution passed at Board meeting
    c) Ordinary resolution passed at General meeting
    d) Ordinary resolution passed at Board meeting.

8. Installment is equal to _________
    a) Principal + Interest
    b) Principal- Interest
    c) Cash Price+ Interest
    d) Cash Price- Down Payment

9. Initial payment made on signing of agreement is _________
    a) Down payment
    b) Hire purchase price
    c) Cash price
    d) Interest

10. Factoring involves _________
    a) Management of debtors
    b) Borrowing from banks
    c) Borrowing against Bills of exchange
    d) Payment of creditors

Q.1. B) State whether following statements are True or False.(Any 7) (7)

1. Net Asset value method is based on the assumption that the company is going to liquidated.
2. Discounted Cash Flow method considers time value of money.
3. Merger of two companies operating in the same market is called horizontal merger and amalgamation.
4. A situation where combined firm is more valuable than the sum of the individual combined firm is called synergy.
5. Corporate restructuring changes organization structure.
6. Capital reduction requires approval from the High Court.
7. In case of any default, the factor has to bear risk of loss due to bad debts.
8. Working capital finance is provided against inventories.
9. Lease rental increase tax liability.
10. Under hire purchase system purchaser become owner of goods on signing of agreement.

Q.2. A) Following is the summarized balance sheet of Suzuki Ltd. as on 31st March 2019. **(15)**

Liabilities	Rs.	Assets	Rs.
Share capital		Land and Building	2,30,000
600, 10% Preference shares of Rs. 100 each fully Paid	60,000	Plant and Machinery	2,50,000
6000, Equity shares of Rs. 100 each fully paid	6,00,000	Stock	1,10,000
Reserves and Surplus	1,50,000	Debtors	40,000
Secured loan		Cash at bank	1,50,000
600, 9% debentures of Rs. 100 each	60,000	Cash in hand	60,000
Sundry creditors	60,000	Investment in 10% Govt. Securities	50,000
		Preliminary expenses	40,000
	9,30,000		**9,30,000**

The average net profit earned by the company amount Rs. 1, 14,000. Every year an amount equal to 10% of the profit earned was transferred to general reserve. The industry average rate of return is 10% of the share value .On 31st March 2019 independent expert valuer has assessed the values of following assets:

Assets	**Rs.**
Goodwill	2,07,000
Land and building	2,40,000
Plant and Machinery	2,40,000
Stock	1,20,000
Debtors	30,000
Investment in 10% Govt. securities	60,000

On the basis of above information calculate the value of equity shares of company by

a) Net Asset Method
b) Yield Method
c) Also calculate fair value of the company's share considering above two methods.

OR

Q.2 B) Calculate EVA from the following information. **(8)**

Debt= Rs. 250 Crore
Equity= Rs. 500 Crore
Cost of debt (after tax) = 8%
Cost of equity= 15%
EBIT (Operating Profit) = 92 crore
Tax rate= 40%

Q.2. C) Calculate MVA from the following information of Alpha Ltd. **(7)**

Balance Sheet of Alpha Ltd. as on 31st March 2019

Liabilities	Rs. In Lakhs	Assets	Rs.in Lakhs
Equity Share Capital of Rs. 10 each	1,200	Building	1,800
Retained earning	600	Machinery	800
8% Term loan	800	Stock	100
Bills Payable	350	Debtors	80
Provision	430	Bank	600
	3380		**3380**

Profit After Tax (PAT)= Rs. 2, 271 (in Lakhs), P/E Ratio = 2

Q.3. A) Zigma Ltd is intending to acquire Sigma Ltd. by merger and following information is available in respect of the companies. **(15)**

Particulars	**Zigma Ltd.**	**Sigma Ltd.**
Equity Share capital of Rs. 10 each (Rs. lakhs)	450	180
Earnings After Tax (Rs. Lakhs)	90	18
Market price of each Share(Rs.)	60	37

On the basis of above information you are required to calculate following:

a) What is the present EPS of both the companies?

b) What is the present Price Earning Ratios (PE ratios) of both the companies?

c) If proposed merger takes place , What would be the new EPS for Zigma Ltd. (assuming that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price)

d) What should be the exchange ratio, if Sigma Ltd. Want to ensure the same EPS to members as before the merger takes place?

OR

Q. 3.B) Raghav takes an asset on finance lease from Rama Ltd. the terms of which are given below: **(8)**

a) Lease Term : 4 years

b) Fair value of asset at the inception of Lease: Rs. 12,50,000

c) Lease Rent : Rs. 4,00,000 at the end of year

d) Expected residual value : Rs. 1,88,000

e) Implicit rate of interest; 15%

You are required to prepare loan amortization schedule

2208075B92D3801C178AB84D08957C38

Q.3. C) Ram Ltd. Purchased machinery from Sham Ltd. under hire purchase basis. **(7)**

The details of purchase are:

a) Cash Prize: Rs. 1,58,000
b) Down payment: 20%
c) Balance amount to be paid in 3 yearly installment of Rs. 12, 00,000 each.
d) Rate of interest is 10%

Prepare table to show analysis of payment and calculation of interest.

Q.4 A) Following is the Balance Sheet of Gangram Ltd. On 31st March 2019. **(15)**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital		Goodwill	50,000
4,000 preference shares of Rs. 100 each	4,00,000	Premises	1,50,000
3,000 Preference shares of Rs. 100 each	3,00,000	Machinery	4,00,000
10% Mortgage debentures	2,00,000	Stock in trade	60,000
Sundry Creditors	1,80,000	Sundry Debtors	1,00,000
		Profit & Loss A/c	3,20,000
	10,80,000		**10,80,000**

Owing to heavy losses the committee of shareholders and creditors approved the following scheme of reconstruction:

a) Preference shares to be reduced to Rs. 75 each fully paid.
b) The equity shares to be reduced to Rs. 40 each fully paid up.
c) The debenture holders took over the stock and book debts in fully satisfaction of the amount due to them.
d) Sundry creditors agreed to reduce their claim to Rs. 1,30,000 which was to be satisfied by the issues of 3,250 fully paid shares of Rs. 40 each.
e) The goodwill and Profit and Loss A/c to be eliminated.
f) Premises to be appreciated by 20% and the machinery to be depreciated by Rs. 30,000.
On the basis of above information pass journal entries, prepare capital reduction account and revised balance sheet after reconstruction.

OR

Q.4 B) PQR Ltd. is planning to lease the asset having total value of Rs. 1,00,000 on rentals of Rs. 35000 p.a. for five years. The following additional information is available. **(8)**

a) The company has an effective tax rate of 30%.
b) The company employs a discounting rate of 16%

You required calculating net cash outflow of the company, if company opts for leasing of asset for five years, considering the above discount rate.

Q.4 C) L & T Company plans to issue commercial paper (CP) of Rs. 1,00,000 at a price of Rs. 98,000 with maturity period of 4 months. Company has also incurred following cost for issue of CP : **(7)**

a) Brokerage- 0.10%
b) Rating Charges- 0.60%
c) Stamp Duty- 0.15%

Find effective interest rate and the cost of fund.

Q.5. A) What are different approaches to valuation of business? **(8)**

B) Explain various advantages of merger and acquisition. **(7)**

OR

Q.5. Write note on the following.**(Any 3)** **(15)**

A) Merger Vs Take over
B) Leasing Vs Hire purchase
C) Forms of restructuring
D) Takeover
E) Trade credits
