**Duration: 2.30 hours** **Marks: 75**

**N.B.: 1. All Questions are compulsory.**
**2. Working Notes should from part of answer.**
**3. Working notes should form part of the answer.**
**4. Use of simple calculator is allowed.**

**Q1.A. Select the correct alternative from the choices given below and rewrite the statement (any 8)** **(8)**

1. While calculating capital employed__________
   (a) Tangible trading assets should be considered.
   (b) Intangible assets should be considered.
   (c) Fictitious assets should be considered.
   (d) None of the above.
2. Yield Value is based on the assumption that____________
   (a) The company is going concern.
   (b) The company will be liquidated.
   (c) The company is sick.
   (d) None of the above.
3. While calculating EPS __________
   (a) Preference dividend is deducted from NPAT.
   (b) Preference dividend is added to NPAT.
   (c) Preference dividend is ignored.
   (d) None of the above.
4. Internal Reconstruction requires_____________
   (a) Ordinary resolution passed at General meeting.
   (b) Special resolution passed at General meeting.
   (c) Special resolution passed at Board meeting.
   (d) Ordinary resolution passed at Board meeting.
5. Reduction in share capital of a company means reduction in ___________
   (a) Paid up capital
   (b) Called up capital
   (c) Authorized capital
   (d) Uncalled capital
6. Lease rentals are operating expenses which are___________
   (a) Deductible for tax purpose
   (b) Added for tax purpose
   (c) Ignored for tax purpose
   (d) None of the above
7. Annual Lease Rental is considered as cash outflow for ___________
   (a) Lessor
   (b) Lessee
   (c) Finance Company
   (d) None of the above

8. The last instalment in hire purchase includes_________
   (a) Cash price only
   (b) Interest only
   (c) Cash price & interest
   (d) None of the above
9. Public deposits are accepted for a maximum of__________
   (a) 1 year
   (b) 2 years
   (c) 3 years
   (d) 5 years
10. Commercial paper is a type of _________
    (a) Fixed coupon bond
    (b) Unsecured short- term debt
    (c) Equity share capital
    (d) Government bond

**Q1.B. State whether the following statements are True or False. (Any 7)** **(7)**

1. Market value refers to the price at which an asset can be traded in the market.
2. Intrinsic value is also known as Net Asset Value.
3. Companies go for merger due to the benefit of small-scale operations.
4. Capital reduction and Internal reconstruction is synonym.
5. After internal reconstruction, Balance Sheet of a company cannot reflect true & fair view.
6. Maintenance cost is cash outflow for the lessee.
7. Under hire purchase system depreciation is provided on hire purchase price.
8. Interest rate on commercial paper is generally less than the bank borrowing rate.
9. Factoring involves discounting of Bills of Exchange.
10. Working capital finance is provided against inventories.

**Q2.A.** The following is the Balance Sheet of Zephyr Ltd as on 31.12.2019 **(15)**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| 6,000 Equity Shares of Rs. 100 each | 6,00,000 | Cash at Bank | 50,000 |
| 500, 9% Debentures of Rs. 100 each | 5,00,000 | Sundry Debtors | 80,000 |
| General Reserve | 70,000 | Stock | 1,20,000 |
| Profit & Loss A/c | 20,000 | Investments | 1,00,000 |
| Sundry Creditors | 30,000 | Land & Building | 4,10,000 |
| Other Liabilities | 10,000 | Furniture | 60,000 |
| | | Goodwill | 70,000 |
| | | Plant & Machinery | 3,40,000 |
| | 12,30,000 | | 12,30,000 |

All the assets were independently valued at Rs. 13,80,000. The Company earned net profits for the last five years as follows:

Rs. 80,000; Rs. 84,000; Rs. 92,000; Rs. 88,000; Rs. 96,000

It was decided to set aside 15% of the profits towards General Reserve. This proportion was considered reasonable in the industry in which the company was engaged and where a fair investment return may be taken at 10%.

Find out the value of equity shares of the company by the:

i) Intrinsic Value method

ii) Yield Value method

iii) Fair Value method

**OR**

**Q2.B.** Shaurya Industries Ltd is engaged in textiles business. Its Income statement and Balance Sheet are given as follows: **(15)**

Income statement for the year ended 31st March 2022

| Particulars | Rs in Lakhs |
|---|---|
| Sales Revenue | 12,000 |
| Less: Cost of Production | 9,000 |
| PBIT | 3,000 |
| Less: Interest on Loan | 20 |
| PBT | 2,980 |
| Less Tax @30% | 894 |
| Earing after tax | 2,086 |

Balance Sheet as on 31st March 2022

| Liabilities | Rs in Lakhs | Assets | Rs in Lakhs |
|---|---|---|---|
| Equity Share capital (Rs 10 each) | 400 | Land & Building | 200 |
| Reserve & Surplus | 300 | Plant & Machinery | 400 |
| 10% Bank Loan | 200 | Debtors | 200 |
| Creditors | 100 | Stock | 150 |
| | | Cash & Bank | 50 |
| | 1,000 | | 1,000 |

The weighted average Cost of Capital is 15%..The company is listed on stock exchange has a P/E ratio of 6 times..You are required to Calculate: a) Value of the firm b) EVA c) MVA

**Q3.A.** Dreamz Ltd is planning to take over Passion Ltd by exchanging 0.5 shares for each share of Passion Ltd. The following information is given below: **(15)**

| **Particulars** | **Dreamz Ltd** | **Passion Ltd** |
|---|---|---|
| No. of Equity shares | 6,00,000 | 1,80,000 |
| Profit After Tax | Rs. 18,00,000 | Rs. 3,60,000 |
| PE Ratio | 10 times | 7 times |
| EPS | Rs 3 | Rs 2 |

Required:

i) Calculate the number of equity shares required to be issued by Dreamz Ltd. for acquisition of Passion Ltd.
ii) Calculate EPS of Dreamz Ltd. after acquisition.
iii) Determine equivalent earnings per share of Passion Ltd.
iv) What is the expected market price per share of Dreamz Ltd. After the acquisition, assuming its P/E multiple remains unchanged.
v) Determine the market value of the merged firm.

**OR**

**Q3.B.** The Balance Sheet of Kartik Ltd. as on 31st December, 2019 stands as under: **(15)**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Authorized Capital: | | | Fixed Assets (at cost) | 14,30,000 |
| 10,000 shares of Rs. 100 each | | 10,00,000 | Stock -in -trade | 80,000 |
| Issued Capital: | | | Sundry Debtors | 30,000 |
| 8,000 Ordinary Shares of Rs. | | | Investments | 17,000 |
| 100 each | | 8,00,000 | Cash at Bank | 13,000 |
| Debentures | | 13,80,000 | Profit & Loss A/c | 10,70,000 |
| Creditors | 4,50,000 | | | |
| Income Tax | 10,000 | 4,60,000 | | |
| | | 26,40,000 | | 26,40,000 |

The following scheme of reconstruction was submitted and approved by the Court:

1. Equity share capital to be reduced to 5%.
2. Debentures to be reduced to 50% which is to be satisfied half by the issue of 7% mortgage debentures, and half by the issue of 8% preference shares of Rs. 100 each.
3. The unsecured creditors will forego 20% of their dues in exchange of ordinary shares of the like amount.
4. The assets are to be reduced to the revalued figures:
   Fixed Assets: Rs. 11,00,000; stock-in -trade: Rs. 50,000; Debtors: Rs. 20,000; Investments: Rs. 7,000.
   You are required to show the necessary Journal entries and prepare the Capital Reduction Account and Final Balance Sheet of the Company.

**Q4.A.** Laxmi Ltd. is providing following information: **(8)**

1. Cost of asset to be leased Rs. 5,000 Lakhs.
2. Salvage Value at the end of 4 years Rs. 200 Lakhs.
3. Depreciation: Fixed Instalment method.
4. Annual Maintenance cost payable at the end of each year Rs. 1,000 (Lessor's share 40%)
5. Tax rate :30%
6. Lease period 4 years
7. Cost of Capital 10%
   What lease rental will provide the company its after tax required rate of return?
   PV Factor at 10%

| Year | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| | .91 | .83 | .75 | .68 |

**Q4.B.** LM Finance Ltd. offers a Hire Purchase proposal for a machine costing Rs. 10,00,000 on the following terms: **(7)**

1. Flat rate of interest - 10%
2. Cost of debt - 12%
3. Tax rate - 30%
4. Depreciation - Fixed Instalment Method
5. Salvage Value - Rs. 1,00,000
6. Period of HP - 3 years

PV of Re. 1 at 12%

| Year | 1 | 2 | 3 |
|---|---|---|---|
| | .893 | .797 | .712 |

Calculate the PV of Cash Outflow.

**OR**

**Q4.C.** Vedant Ltd. has a total sale of Rs.3.2 crores and its average collection period is 90 days. The past experience indicates that bad-debt losses are 1.5% on sales. The expenditure incurred by the firm in administering its receivable collection efforts are Rs. 5,00,000. A factor is prepared to buy the firm's receivables by charging 2% commission. The factor will pay in advance on receivables to the firm at an interest rate of 18% p.a. after withholding 10% as reserve. **(15)**
Calculate the effective cost of factoring to the firm.

**Q5.A.** What is the need of valuation of Goodwill? Explain the methods of valuation of goodwill. **(8)**
**Q5.B.** Explain briefly the types of corporate restructuring strategies. **(7)**

**OR**

**Q5.C. Write short notes on the following (any 3)** **(15)**
(a) Economic Value Added
(b) Operating Lease Vs Financial Lease
(c) Hire Purchase Financing
(d) Public Deposits
(e) Commercial papers

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