

Time: 2:30 hours

Marks: 75

- N.B.:
1. All questions are compulsory.
  2. Working notes should form part of your answer.
  3. Figures to the right indicate full marks.

Q-1) (A) Fill in the blanks by choosing the correct option: **(Any eight)** (08 marks)

1. Capital rationing helps in \_\_\_\_\_ shareholders wealth. (Maximizing, minimizing, doubling)
2. Dividend is paid in \_\_\_\_\_. (cash, kind, both)
3. In a \_\_\_\_\_ loans it is raised against the personal guarantee of the borrowers. (unsecured, secured, none of these)
4. \_\_\_\_\_ is the most liquid item of current assets. (Cash, Stock, Debtors)
5. High tax rates demands \_\_\_\_\_ amount of Working Capital. (less, more, none of these)
6. Bills purchased and discounted is treated as NPA when they remain unpaid for more than \_\_\_\_\_ days (45, 30, 90)
7. Co-efficient of Variation indicates that \_\_\_\_\_ the co-efficient, the riskier is the project. (higher, lower, zero )
8. \_\_\_\_\_ is excess of Market Capitalisation over net worth. (EVA, MVA, Residual Income.)
9. An asset becomes non-performing when \_\_\_\_\_. (no income is received, loss is incurred, no profit is received).
10. Earnings per share remains constant is the assumption of \_\_\_\_\_ model. (Walter, MM, Gordon)

Q-1) (B) State whether the following statements are True or False: **(Any seven)** (07 marks)

1. In case of inadequate working capital situation, the firm runs the risk of insolvency.
2. Dividend becomes a liability when it is recommended by directors.
3. A firm using labour oriented technology will require more working capital to pay labour wages regularly.
4. XBRL provides reporting framework that control risks.
5. Marketable Securities are temporary short term investments made out of surplus cash balance.
6. RBI is the Central Bank of India.
7. Zero working capital is when both current assets and current liabilities.
8. Disclosure is the principle of corporate governance.
9. Amalgamation is governed by AS 14.
10. NPA stands for Net Performing Asset.

Q-2) (A) Calculate the Market Price of share as per Walter Model and Gordon Model. (15 marks)

Retention Ratio	50%
Internal Rate of Return	20%
Cost of Capital	16%
Dividend per share	Rs. 3
Earnings Per Share	Rs. 5

**OR**

Q-2 (B) Warner Bros Ltd has outstanding 1,20,000 shares selling at Rs 20 per share. The company hopes to make a net income of Rs. 3,50,000 during the year ended 31<sup>st</sup> March 2019. The company is considering to pay a dividend of Rs. 2 per share at the end of the current year. The capitalization rate for risk class of this company has been estimated to be 15%. Assuming no taxes, answer the questions listed below on the basis of the Modigliani and Miller Dividend valuation model:

(15 marks)

- i) What will be the price of a share at the end of 31<sup>st</sup> March 2019?
  - a) If the dividend is paid and
  - b) If the dividend is not paid.
- ii) How many new shares must the company issue if the dividend is paid and company needs Rs 7,40,000 for an approved investment expenditure during the year?

Q-3) (A) Victoria Limited furnishes the following information from which you are required to compute the PV and suggest which project to be selected.

(08 marks)

Year	Project AB		Project XY	
	CFAT (Rs.)	Probability	CFAT (Rs.)	Probability
1	8,000	0.1	22,000	0.2
2	9,000	0.2	21,000	0.2
3	12,000	0.3	17,000	0.2
4	13,000	0.2	15,000	0.2
5	18,000	0.2	12,000	0.2

Company's Cost of Capital is 10%.

(B) HD Ltd furnishes the following information:

Investment Limit: Rs. 70 lakhs.

(07 marks)

Project	Initial Outlay (Rs. In lacs)	NPV (Rs. In lacs)
P	50	20.0
Q	10	9.0
R	35	7.2
S	32	6.4

Q and R are mutually exclusive. None of the projects can be delayed or undertaken more than once. Suggest the most feasible combination.

**OR**

(C) Mohan Ltd is considering investment in one of the three mutually exclusive projects: X, Y and Z. The company's cost of capital is 5% and the risk free interest rate is 10%. The income tax rate for the company is 34%. Mohan Ltd has gathered the following basic cash flows and risk index data for each project:

(15 marks)

Projects	X	Y	Z
Initial Investment	12,00,000	10,00,000	15,00,000
Cash Inflows:			
Year 1	5,00,000	5,00,000	4,00,000
2	5,00,000	4,00,000	5,00,000
3	5,00,000	5,00,000	6,00,000
4	5,00,000	3,00,000	10,00,000
Risk Index	1.80	1.00	0.60

Q-4) (A) Calculate EVA from the following data for the year ended 31<sup>st</sup> March 2019:

- Average Debt Rs. 25 Crores (08 marks)
- Average Equity Rs. 2,500 Crores
- Cost of Debt 8%
- Cost of Equity 15%
- Profit after Tax Rs. 12 Crores
- Interest Rs. 4 Crores

(B) Sahu Ltd is intending to acquire JD Ltd by way of merger. The intended merger will take place through exchange of equity share, valuation to be based on Market Price per share (MPS). Following information is extracted from the books of Sahu Ltd and JD Ltd. (07 marks)

	Sahu Ltd	JD Ltd
Earnings after tax	1000 lakhs	200 lakhs
No. of shares	100 lakhs	50 lakhs
MPS	Rs. 100	Rs. 20

You are required to calculate:

- i) Present EPS of both the companies?
- ii) EPS of Sahu Ltd after the merger.

OR

Q-4) (A) From the following particulars, prepare statement showing working capital needed to finance a level of activity of 12,000 units of output per annum. (08 marks)

	Rs.
Raw Materials	5
Labour	3
Overhead	2
Total Cost	10
Profit	2
Selling Price	12

Additional information:

- (a) Raw Materials are to remain in store on an average-one month.
- (b) Materials are in process, on an average- 2 months.
- (c) Finished goods are in stock on an average- 3 months
- (d) Credit allowed to Debtors is 4 months.
- (e) Credit allowed by suppliers is 2 months.

Also calculate MPBF (third method) as per Tandon Committee recommendation, assuming that of the current assets 20% is Core Current Assets.

(B) From the following information find out the amount of provisions required to be made in the profit and loss account of Dena Commercial Bank for the year ended 31<sup>st</sup> March, 2019: (07 marks)

Assets Classification	Rs. (in lakhs)
Standard	6,000
Sub-Standard (Fully secured)	4,400
Doubtful : (Fully secured)	
For one year	1,800
For two years	1,200
For three years	800
For more than 3 years	600
Loss Assets	1,200

Q-5) (A) Discuss the factors determining working capital requirements. (08 marks)

(B) Explain the advantages and disadvantages of XBRL. (07 marks)

OR

Q-5) Write short notes on: (any three) (15 marks)

- Decision Tree Analysis
- Importance of Corporate Governance
- Challenges in Banking Industry
- Merger
- Sources of Working Capital

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