Financial Management (Theory and Practice)

Model Test Paper-I

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Question 1: **(a)** From the following information, prepare a summarized balance sheet as at March 31,2009:

Stock velocity	6	Fixed assets turnover ratio	4
Capital turnover ratio	2	Gross profit	20%
Debt collection period	2 months	Creditors payment period	73 days
The gross profit	₹ 60,000		

Closing stock was ₹ 5,000 in excess of the opening stock.

(b) What are the assumptions of the Modigliani and Miller Capital Structure Model?

Question 2: From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

(Nov-2002)

Liabilities	**31.03.2002** (₹)	**31.03.2001** (₹)
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	—
Provision for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry Creditors	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and Machinery	7,00,000	5,00,000
Land and Building	6,00,000	4,00,000
Investments	1,00,000	—
Sundry Debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand/Bank	2,00,000	2,00,000
	25,00,000	20,00,000

(a) Depreciation @ 25% was charged on the opening value of Plant, and Machinery. **(b)** During the year one old machine costing 50,000 (WDV 20,000) was sold for ₹ 35,000. **(c)** ₹ 50,000 was paid towards Income tax during the year. **(d)** Building under construction was not subject to any depreciation.

Prepare Cash flow Statement.

Question 3:

(a) A company issues ₹ 10,00,000 16% debentures of ₹ 100 each. The company is in 35% tax bracket. You are required to calculate the cost of debt after tax. If debentures are issued at (i) Par, (ii) 10% discount and (iii) 10% premium

(b) If brokerage is paid at 2% what will be cost of debentures if issue is at par.

(c) Explain briefly the limitation of Financial Ratios?

(d) What do you mean by Marginal Cost of capital?

Question 4: A company needs ₹ 12,00,000 for the installation of a new factory which would yield an annual EBIT of ₹ 2,00,000. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of ₹ 2,00,000, ₹ 6,00,000 or ₹ 10,00,000. The current market price per share is ₹ 40 which is expected to drop to ₹ 25 per share if the market borrowings were to exceed ₹ 7,50,000. Cost of borrowings are indicated as under:

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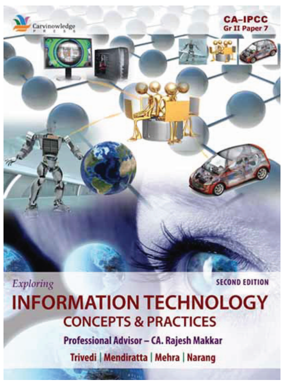

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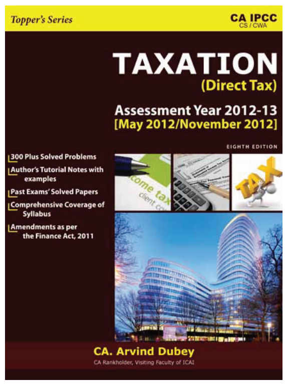

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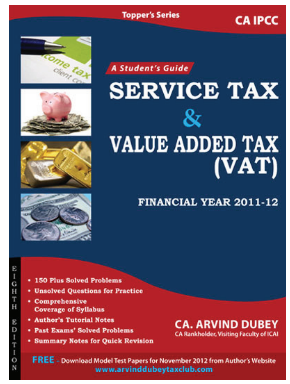

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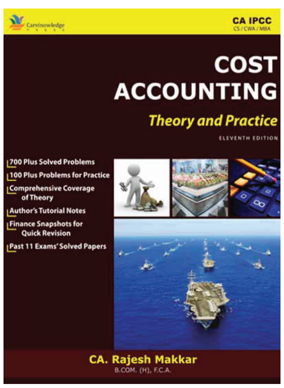

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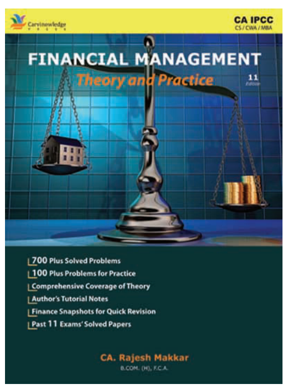

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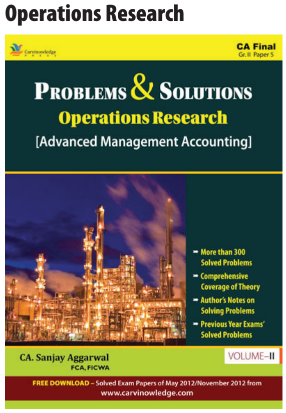

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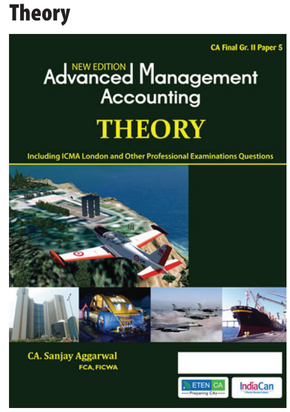

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Upto ₹ 2,50,000	—	10% P.a.
Between ₹ 2,50,001 and ₹ 6,25,000	—	14% P.a.
Between ₹ 6,25,001 and ₹ 10,00,000	—	16% P.a.

Assuming the tax rate to be 50%. Work out the EPS.

Question 5: **(a)** XYZ Ltd. had the following Balance Sheet for the year ended 31st December, 1997:

(₹ in lakhs)

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Capital (one lakh shares of ₹ 10 each)	10	Fixed Assets (net)	25
Reserve and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		
	40		40

Additional information given:

Fixed costs per annum (excluding interest)	₹ 8 Lakh
Variable Operating Cost Ratio	80%
Total Assets Turnover	3
Income –tax	50%

Required:

(i) Earnings per share
(ii) Operating Leverage
(iii) Financial Leverage
(iv) Combined Leverage
(v) Combined Ratio

(b) What is optimal capital structure? Explain.

Question 6: **(a)** A Company has to select one of the following two projects: (₹)

		Project A	Project B
Cost		11,000	10,000
Cash in flows			
Year	1	6,000	1,000
	2	2,000	1,000
	3	1,000	2,000
	4	5,000	10,000

Using the Internal rate of return method suggest which project is preferable.

(b) Differentiate between factoring and Bills discounting.

Question 7: From the following information of XYZ Ltd., calculate:

(i) Net operating cycle period.
(ii) Number of operating cycles in a year:

1.	Raw material inventory consumed during the year		6,00,000
2.	Average stock of raw material	50,000	
3.	Work-in-progress inventory	500,000	
4.	Average work-in-progress inventory		30,000
5.	Finished goods inventory	8,00,000	
6.	Average finished goods stock held		40,000
7.	Average collection period from debtors		45 days
8.	Average credit period availed	30 days	
9.	No of days in a year		360 days

Cost Accounting
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Financial Management
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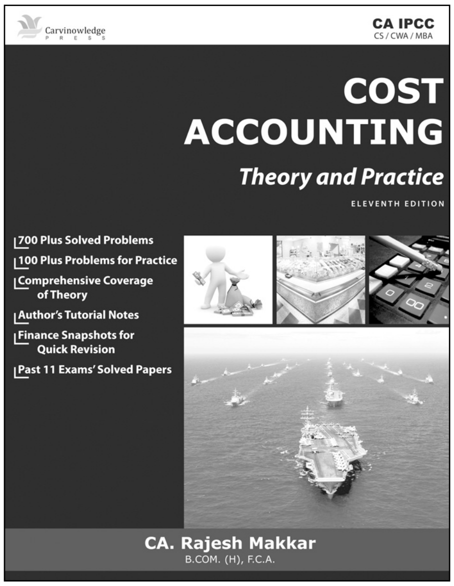

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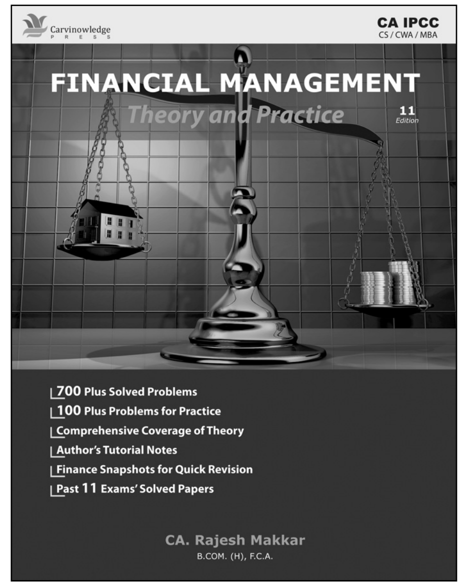

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