Inter FM (Nov-19)

Q.1(a)

EBIT	4
Int.	-0.6
PBT	3.4
Tax (Hf)	-1.0
PAT	2.4
Dp	-0.2
EAES	2.2
No.	÷1.0
EPS	₹2.2

$P/E = \frac{14}{2.2} = 6.36$

$ROI = \frac{EBIT}{CE} = \frac{4}{26} =$

15.38%

Q.1(b)

PVAF = 4.33

NPV ① $50 \times 4.33 - 400 = -183.5$

② $100 \times 4.33 - 400 = +33$

③ $150 \times 4.38 - 400 = +249.5$

Expected NPV = $-183.5 \times .3 + 33 \times .3 + 249.5 \times .4$

= +54.65

Accept Project

This is quick First Draft of solution for final cross checked solution with proper presentation check fmbytm android app on 21st November 2019

Q.1 (c) (i) ~~MPS = EPS × P/E = 5 × 10 = 50~~

(ii) $K_e = \frac{1}{PE} = \frac{1}{10} = 10\%$

(iii) $r > K_e$ (20% > 10%) hence 0% is optimum

(iv) $P = \frac{0 + \frac{.20}{.10}(5-0)}{.10} = ₹100$

(i) $P = \frac{3 + \frac{.20}{.10}(5-3)}{.10} = ₹70$

Q.1(d)

Project	Invest.	PV_I	PI	Rank
C	40	60	1.50	1
D	100	135	1.35	3
E	50	74	1.48	2
F	60	78	1.30	4

(1) Divisible

C = 40

E = 50

D = 10

(2) Indivisible

C = 40

E = 50

Idle = 10

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Q.2 (i) $4 = \frac{\text{Sales}}{600} \Rightarrow$ Sales $= 24,00$

Cont. $= 24,00 \times 40\% = 960$

$DOL = \frac{960}{960-200} = 1.26$

(ii) EBIT $= 760$

Int. $= 240 \times 10.1 = 24$

$DFL = \frac{760}{760-24} = 1.03$

(iii) $DTL = \frac{960}{960-200-24} = 1.30$

(iv) $\frac{EPS \times No.}{(1-t)} + Int. = EBIT$

$\frac{1 \times 18000}{0.7} + 24000 = 49714$

$\frac{2 \times 18000}{0.7} + 24000 = 75429$

$\frac{0 \times 18000}{0.7} + 24000 = 24000$

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Q.3

	Jan	Feb	Mar.
Opening	35	357.5	687.5
Debtors	1080	1125	1170
Loan			200
	1115	1482.5	2057.5
Creditors @ 300	562.5	585	630
Wages & VO @ 100	195	210	225
Machine			300
	757.5	795	1155
closing	357.5	687.5	902.5

	Jan	Feb	Mar.
Cash	357.5	687.5	902.5
Stock @ 7400	780	840	900
Debtors @ 600	1125	1170	1260
	2262.5	2697.5	3062.5
Creditors @ 300	585	630	675
Current Ratio	3.87	4.28	4.54

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Q.4 Discounting rate should be $K_d = 10\% \times 0.7 = 7\%$
It is assumed that Instalment of loan includes interest

Loan option

Year	Instalment	Tax Benefit Depn	Tax Benefit Int.	Fees x(1-t)	Net	PV@ 7%
1	-157,735	37500	15000	-36400	-141635	
2	"	26250	11768	"	-156117	
3	"	18375	8213	"	-167547	
4	"	12863	4302	"	-176971	
						-540506

Salvage	+ 50,000
TB (158203-50000) x 0.3	+ 32461
	82461
PVF	x 0.763
PV	62,909

NPV = -540506 + 62909 = -477597

Lease

$-190000 \times 0.7 \times 4.10 = -545300$

Decision: Loan is better

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Q.5 (a) Debt = 125 lakhs Equity = 375 lakhs

(b) $K_{d1} = 10\% \times 0.75 = 7.5\%$

$K_{d2} = 12\% \times 0.75 = 9\%$

K_d (average) $= \frac{7.5 \times 75 + 9 \times 50}{125} = 8.1\%$

(c) $K_r = K_e = \frac{2}{25} + .05 = 13\%$

(d) $K_0 = \frac{8.1\% \times 125 + 13\% \times 375}{500} = 11.78\%$

Q.6(a) Investment Decision
Financing Decision
Dividend Decision

(b) This is used when life is unequal

$$ENPV = \frac{NPV}{PVAF}$$

(c) Used to take financing decision as well as to calculate NPV and take investment decision

OR

CC Limit: against stock
BD Limit: against Debtors
Creditors: without explicit interest
Bill discounting: with a bank.