

St Aloysius College (Autonomous)
Mangaluru
Semester I – P.G. Examination - M.Com. (Finance and Analytics)
February - 2022

FINANCIAL STATEMENTS ANALYSIS

Time: 3 hrs.

Max Marks: 70

SECTION - A

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Answer any FIVE of the following:

1. List out the various objectives and demerits of International Financial Reporting Standards (IFRS).
2. Summarize the limitations of Financial Statements.
3. Identify the various objectives of financial statement analysis and interpretation.
4. Outline the significance of projected cash flow statement in decision making.
5. Illustrate the Consolidated Financial Statement procedures as per Indian Accounting Standard -21.
6. Identify the various Inflation Accounting methods followed in an organization.
7. Distinguish between Human Resource Accounting and Financial Accounting in detail.

SECTION - B

Answer any FOUR of the following:

(4×10=40)

8. Describe the benefits of Global Convergence of Accounting. Determine the various challenges in the implementation of convergence of Indian Accounting Standards with IFRS.
9. ABC Ltd has made plans for the next year. It is estimated that the company will employ total assets of ₹ 8,00,000, 50% of the assets being financed by borrowed capital at the interest rate of 16% per year. The direct cost for the year are estimated at ₹ 4,80,000 and all other operating expenses are estimated at ₹ 80,000. The goods will be sold to customer at 150% of the direct costs. Income tax rate is assumed to be 30%.
 You are required to calculate
 - Net Profit Margin
 - Return On Assets
 - Asset Turnover Ratio
 - Return on Owners Equity
10. From the following balance sheet of Mars Ltd as on 31st March 2020 and 2021. You are required to prepare a) A Schedule of Changes in Working Capital and b) A Fund Flow Statement.

| | 2020 | 2021 | | 2020 | 2021 |
|-----------------------------|----------|----------|------------------|----------|----------|
| Share capital | 2,00,000 | 2,00,000 | Goodwill | 24,000 | 24,000 |
| General Reserve | 28,000 | 36,000 | Building | 80,000 | 72,000 |
| Profit and Loss A/C | 32,000 | 26,000 | Plant | 74,000 | 72,000 |
| Creditors | 16,000 | 10,800 | Investment | 20,000 | 22,000 |
| Bills Payable | 2,400 | 1,600 | Stock | 60,000 | 46,800 |
| Provision for Tax | 32,000 | 36,000 | Bills Receivable | 4000 | 6400 |
| Provision for Doubtful Debt | 800 | 1,200 | Debtors | 36,000 | 38,000 |
| | | | Cash and Bank | 13,200 | 30,400 |
| | 3,11,200 | 3,11,600 | | 3,11,200 | 3,11,600 |

Additional Information:

- Depreciation provided on plant was ₹ 10,000 and on building ₹ 8,000
- Provision for taxation made during the year ₹ 30,000
- Interim dividend paid during the year ₹ 16,000

11. Explain the various approaches and limitations of Social Accounting.
12. What is Human Resource Accounting? What are the benefits and challenges of Human Resource Accounting?
13. a) From the following data compute the cost of sales adjustment under CCA method (Assume FIFO):

| Particulars | HCA(₹) | Price Index |
|-------------------------------|--------|-------------|
| Stock on 1 Jan, 2020 | 10,000 | 180 |
| Purchases during 2020 | 30,000 | 19 |
| Stock as on 31 December, 2020 | 12,500 | 220 |

- b) From the following calculate monetary working capital adjustment as required under Current Cost Accounting system:

| Items | 31 Dec, 2019 | 31 Dec, 2020 |
|----------------------------------|--------------|--------------|
| Inventories | 2,75,000 | 3,05,000 |
| Accounts Receivable | 2,25,000 | 2,75,000 |
| Cash Balances | 30,000 | 40,000 |
| Advances for supply of materials | 50,000 | 63,250 |
| Accounts Payable | 1,25,000 | 1,61,000 |

The prices of materials increased by 15% and those of finished goods by 10% during 2020.

SECTION - C (Compulsory)**(10)**

14. The summarized balance sheet of RM Enterprises as on 31st March 2021 is given below:

| Liabilities | Amount | Assets | Amount |
|---------------------|-----------|--------------|-----------|
| Equity Capital | 40,00,000 | Fixed assets | 28,00,000 |
| Reserve and Surplus | 6,00,0000 | Cash | 2,40,000 |
| Sundry Creditors | 14,00,000 | Debtors | 18,60,000 |
| | | Inventories | 11,00,000 |
| | 60,00,000 | | 60,00,000 |

Other Information:

| | |
|---|------------|
| Sales | 52,00,000 |
| Less: Cost of goods sold | 36,00,000 |
| | 16,00,000 |
| Less: Selling and Administration Expenses | 12,50,000 |
| | Net Profit |
| | 03,50,000 |

Current industry average of important ratios given below:

| | |
|--------------------------------------|------|
| Current Ratio | 2:1 |
| Liquid Ratio | 1:4 |
| Debtor Turnover | 8.0 |
| Inventory Turnover (Sales/Inventory) | 10.2 |
| Net profit/Sales | 9% |
| Sales/Total Assets | 2 |

Calculate the above ratios for RM Enterprises, compare the same with the industry average and comment briefly

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Mangaluru
Semester I - P.G. Examination - M.Com (Finance and Analytics)

February - 2022

WORKING CAPITAL MANAGEMENT

Time: 3 Hours

Max. Marks: 70

SECTION - A

Answer any **FIVE** of the following:

(5x4=20)

1. What is operating cycle? Why is it important?
2. What do you understand by debt securitisation?
3. What are the different classes of cash flows?
4. Mention briefly how collection time in banking system can be reduced.
5. List out the important reasons for cash flow problems in an organization.
6. Write a short note on credit policy.
7. The annual demand for an item is 3200 units. The unit cost is ₹ 6 and inventory carrying charges is 25% per annum. If the cost of one procurement is ₹ 150 determine: a) Economic order quantity
b) number of orders per year

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SECTION - B

Answer any **FOUR** of the following:

(4x10=40)

8. Discuss the significance of working capital management in an organization? What are the factors affecting working capital requirements of an organization?
9. Explain the various forms of working capital finance available from banks in India.
10. The BODs of a company request you to prepare a statement showing the working capital requirements for a level of activity of 1,56,000 units of production. The following information is available for your calculations.

| | Per Unit (₹) |
|---------------|--------------|
| Raw material | 90 |
| Direct Labour | 40 |
| Over head | 75 |
| Total Cost | 205 |
| +Profit | 60 |
| Selling price | 265 |

Additional information:

- I. Raw material is in stock, on average for 1 month.
- II. Materials are in process on average for 4 weeks
- III. Finished goods are in stock, on average for 1 month.
- IV. Credit allowed by suppliers is 1 month.

- V. Time lag in payment from debtors is 2 months
 VI. Average lag in payment of wages 1.5 weeks
 VII. Average lag in payment of overheads is 1 month.

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20% of output is sold against cash. Desired minimum cash in hand & at bank is ₹ 60,000. Assume that production is carried on evenly throughout the year; wages & overheads accrue similarly, & a time period of 4 weeks is equivalent to a month.

11. The annual cash requirement of a company is ₹ 10 lakhs. The company has marketable securities in lot sizes of ₹ 50,000, ₹ 1,00,000, ₹ 2,00,000, ₹ 2,50,000 & ₹ 5,00,000. Cost of conversion of marketable securities per lot is ₹ 1,000. The company can earn 5% annual yield on its securities. You are required to prepare a table indicating which lot size will have to be sold by the company. Also show that the economic lot size can be obtained by the Baumol Model.
12. From the following particulars with respect to a particular item of materials of a manufacturing company, calculate the best quantity to order.

| Order Quantity (tons) | Price per ton(₹) |
|---------------------------|------------------|
| Less than 250 | 6.00 |
| 250, but less than 800 | 5.90 |
| 800, but less than 2,000 | 5.80 |
| 2,000 but less than 4,000 | 5.70 |
| 4,000 & above | 5.60 |

The annual demand for the material is 4,000 tons. Stock holding costs are 20% of material cost per annum. The delivery cost per order is ₹ 600.

13. Explain the strategies in working capital management.

SECTION - C (Compulsory)

(1x10=10)

14. X Ltd currently has an annual turnover of ₹ 20 lakhs and an average collection period of 4 weeks. The company proposes to introduce a more liberal credit policy which they hope will generate additional sales as shown below:

| Proposed credit policy | Increase in | | percentage of default |
|------------------------|----------------------|----------|-----------------------|
| | collection period by | Sales | |
| 1 | 2 weeks | 2,00,000 | 2% |
| 2 | 4 weeks | 2,50,000 | 3% |
| 3 | 6 weeks | 3,50,000 | 5% |
| 4 | 8 weeks | 5,00,000 | 8% |

The selling price of the product is ₹ 10 and the variable cost per unit is ₹ 7. The current bad debt loss is 1% & the desired rate of return on investment is 20%. For the purpose of calculation, a year is to be taken to comprise of 52 weeks. Indicate which of the above policies you would recommend the company to adopt? Why?

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

St Aloysius College (Autonomous)

Mangaluru

Semester I – P.G. Examination - M.Com. (Finance and Analytics)

February - 2022

INCOME TAX

Time: 3 hrs.

Max Marks: 70

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SECTION - A

Answer any **FIVE** of the following

1. Simon an American came to India on 20th Dec. 2017. He was in India till 31st January 2019 when he went to Canada. He came to India taking up an employment in a British Concern on 20th May 2019. He was sent to Japan for 06 months' training on 1st November 2019. He returned to India after the training on 01.05.2020. He was transferred to Singapore Branch on 20th August, 2021. Find out his residential status for the Assessment Year 2021-22.
2. Discuss the provisions relating to set-off and carry forward of losses.
3. Mr. Damodar retired on 15.06.2020 from a manufacturing company after putting service of 30 years and 7 months. He received a Gratuity of @ 3,60,000. Basic salary of Mr. Damodar was ₹ 20,000 p.m. during 2019 and ₹ 22,000 p.m. during 2020. He was also getting D.A. @ ₹ 5,000 p.m. which was increased from ₹ 4,000 on 01.04.2020. 100% of D.A. is part of basic salary for calculation of pension benefits. Compute his taxable gratuity, if he is not covered under Payment of Gratuity Act, 1972.
4. Define the 'Capital Gain'. Distinguish between Short-term Capital gain and Long-term Capital gain.
5. Write a note on taxable income under the head income from other sources.
6. On 1st April, 2020 the written down value of a block of assets comprising twelve machines (rate of depreciation 25%) is ₹ 13,00,000. A new machine falling within that block is acquired on 1st Nov. 2020 for ₹ 2,00,000. On 20th March, 2021 all the twelve old machines were sold for ₹ 1,00,000 leaving only the newly acquired machine within the block. Determine the amount of depreciation. The assessee is not entitled to additional depreciation on machine.
7. From the following information determine the annual value of the house:

| | ₹ |
|-----------------|----------|
| Municipal value | 80,000 |
| Fair rent | 1,20,000 |
| Standard rent | 1,00,000 |

The house was self-occupied for four months and then let-out (a) @ ₹ 10,000 p.m. (b) @ ₹ 15,000 p.m. Municipal tax paid by the owner ₹ 10,000.

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SECTION - B

Answer any **FOUR** questions out of six questions.

(4×10=40)

8. Shri. Madhukar retired from Service on 31st January 2021 after serving for 27 years, 8 months. He received a Gratuity of ₹ 2,65,000. He had 09 months earned leave to his credit which he encashed and received ₹ 2,20,000. His basic as on 01.01.2020 was ₹ 13,500 and the increment of ₹ 500 fell due on 1st Oct. He received HRA at ₹ 4,000 per month, whereas the rent paid for the house was ₹ 5,000 per month. DA was fixed at ₹ 2,500 per month [50% of which enters retirement benefits]. He commuted $\frac{3}{4}$ of his pension and received ₹ 1,50,000.
9. Compute taxable gratuity, taxable commuted pension, taxable leave encashment and taxable House Rent Allowance.
10. Write a detailed note on exemptions under the head capital gain?
10. From the following Profit and Loss account of Vineeth, ascertain the taxable Profit from business:

| | ₹ | | ₹ |
|---|-----------------|---------------------------------------|-----------------|
| Office Salaries | 10,000 | Gross Profit | 4,59,500 |
| Proprietors salary | 5,000 | Profit on sale of Residential house | 2,40,000 |
| Interest on capital | 2,000 | Interest on Govt. Securities | 5,000 |
| General expenses | 5,000 | Dividends from Agricultural Companies | 2,500 |
| Bad Debts | 2,000 | Bad debts recovered (Allowed earlier) | 5,000 |
| Advertisements | 4,500 | | |
| Fire Insurance Premium | 2,000 | | |
| Depreciation | 4,000 | | |
| Reserve for future losses | 10,000 | | |
| Income tax on last assessment | 4,000 | | |
| Advance Income tax paid | 2,000 | | |
| Donations to Mangalore University | 1,000 | | |
| Legal charges for defending suit for alleged breach of a trading contract | 500 | | |
| Motor car expenses | 1,000 | | |
| Net Profit | 6,59,000 | | |
| | 7,12,000 | | 7,12,000 |

General expenses include ₹ 1,000 paid as compensation to an old employee whose services were terminated as his continuance in service was considered detrimental to the profitable conduct of the company's business and ₹ 200 by way of help to a poor college student. The depreciation is found to be in excess by ₹ 1,800. Motor car expenses include ₹ 500 as motor car expenses for private use.

11. Mr. Sunil is the owner of following house properties in Shimoga. Particulars in respect of which for the year ended 31.3.2021 are as below:

| | Particulars | I House (₹) | II House (₹) | III House (₹) |
|----|--------------------------------------|-------------|--------------|----------------|
| 1. | Actual rent for 12 months | 9,000 | 1,800 | Dwelling House |
| 2. | Standard rent | 7,000 | 2,000 | - |
| 3. | Municipal valuation | 8,400 | 1,800 | 35,600 |
| 4. | Total Municipal tax | 840 | 180 | 3,200 |
| 5. | Municipal tax paid by Mr. Sunil | 840 | 90 | - |
| 6. | Municipal tax paid by tenant | - | 90 | - |
| 7. | Repairs | 1,000 | 500 | 2,000 |
| 8. | Vacancy period | 1 month | - | - |
| 9. | Interest on loan for repairing house | 300 | 600 | 12,000 |

Contd...3

Unrealized rent allowed in the Assessment year 2018-19 recovered during the year for the 1st house ₹ 4,000.

- Compute his Income from House property for the Assessment Year 2021-22.
12. Explain deductions u/s 80C, 80D, 80TTA & 80TTB.
13. Explain any 10 perquisites under the head Income from salary.

SECTION - C (Compulsory)

(1×10=10)

14. Dr. Dasgupta, a medical practitioner, furnishes his Receipts and Payments Account for the Previous Year 2020-21:

| <i>Receipts</i> | | <i>Payments</i> | |
|---|-----------------|--|-----------------|
| | ₹ | | ₹ |
| Balance b/d | | Membership fees at Medical Association | 1,000 |
| Examiner's fees | 28,000 | Household expenses | 15,000 |
| Visiting fees | 1,000 | Rent of Clinic | 23,000 |
| Sale of Medicine | 60,000 | 2 nd Installment of car purchased [out of total of five installments] | 60,000 |
| Consultation fees | 1,20,000 | Income tax | 20,000 |
| Salary as a part time lecturer in a medical college | 40,000 | Electricity, Water etc. | 4,000 |
| Gifts received from patient | 5,000 | Car Expenses | 30,000 |
| Retainer fees from G Ltd. | 10,000 | Medicine purchased | 80,000 |
| Interest on Post office Savings Bank Account | 3,000 | Salary to Staff | 20,000 |
| Interest on Govt. Securities | 3,000 | Gifts to wife | 10,000 |
| | | Surgical equipment | 30,000 |
| | 31,000 | Balance c/d | 8,000 |
| | 3,01,000 | | 3,01,000 |

Other information:

- a) 1/3rd of the motor car relates to his personal use.
- b) Medicine costing ₹ 10,000 was taken for the treatment of his son.
- c) Depreciation to be charged on Motor car @ 15%, and on Surgical equipment @ 15%.

Compute income from Profession of Dr. Dasgupta for the Assessment year 2021-22.

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Mangaluru
 Semester I- P.G. Examination - M.Com.(Finance and Analytics)
 February - 2022
BUSINESS STATISTICS

Time: 3 hrs.

Max Marks: 70

SECTION - A

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(5x4=20)

Answer any **FIVE** questions.

1. Write a note on origin and growth of statistics.
2. Mention the precaution to be taken before using data from a secondary source.
3. Represent the following data by a Histogram:

| Length of Service (years) | Number of Employees |
|---------------------------|---------------------|
| Less than 5 | 5 |
| 5-10 | 12 |
| 10-15 | 25 |
| 15-20 | 48 |
| 20-25 | 32 |
| 25-30 | 6 |
| 30-35 | 1 |

4. For the following data relating to the age of 52 employees form a frequency distribution by taking a magnitude of five as class intervals.

| | | | | | | | | | | | |
|----|----|----|----|----|----|----|----|----|----|----|----|
| 67 | 34 | 36 | 48 | 49 | 31 | 61 | 34 | 43 | 45 | 38 | 32 |
| 27 | 61 | 29 | 47 | 36 | 50 | 46 | 30 | 46 | 32 | 30 | 33 |
| 45 | 49 | 48 | 41 | 53 | 36 | 37 | 37 | 47 | 30 | 46 | 50 |
| 28 | 35 | 35 | 38 | 36 | 46 | 43 | 34 | 62 | 69 | 50 | 28 |
| 44 | 43 | 60 | 39 | | | | | | | | |

5. Two housewives, Geeta and Rita, were asked to express their preferences for ten different detergents by ranking these detergents. The housewives awarded the following ranks to the ten detergents:

| Detergent | Geeta | Rita |
|-----------|-------|------|
| A | 4 | 4 |
| B | 2 | 1 |
| C | 1 | 2 |
| D | 3 | 3 |
| E | 7 | 8 |
| F | 8 | 7 |
| G | 6 | 5 |
| H | 5 | 6 |
| I | 9 | 9 |
| J | 10 | 10 |

Using Spearman's Rank Correlation Coefficient, measure, to what extent, the preference of the two ladies go together?

6. Explain what do you understand by Probability. Discuss its importance in business decision-making.
7. List out the significance of measuring dispersion. What are the properties of a good measure of dispersion?

SECTION - BAnswer any **FOUR** questions.

(4x10=40)

8. Statistical thinking will one day be as necessary for efficient citizenship as the ability to read and write". Comment on this statement highlighting the significance of statistics in managerial decision making.

Contd...2

9. "Diagrams and graphs are more effective in attracting attention than any other methods of presenting data". Justify this statement with suitable points.
10. In an examination of 675 candidates, the examiner supplied the following information:

| Marks Obtained | Number of Candidates |
|----------------|----------------------|
| Less than 10% | 7 |
| Less than 20% | 39 |
| Less than 30% | 95 |
| Less than 40% | 201 |
| Less than 50% | 381 |
| Less than 60% | 545 |
| Less than 70% | 631 |
| Less than 80% | 675 |

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11. Calculate the median of the percentage marks obtained. Calculate the arithmetic mean and the median of the frequency distribution given below. Calculate the mode using the empirical relation between the two:

| Height (cms.) | Number of Students |
|---------------|--------------------|
| 130-134 | 5 |
| 135-139 | 15 |
| 140-144 | 28 |
| 145-149 | 24 |
| 150-154 | 17 |
| 155-159 | 10 |
| 160-164 | 1 |

12. The Personnel Manager of a manufacturing company developed a test for job applicants to predict their production rating in the assembly department. In order to do this, he selects a random sample of 10 applicants. They are given the test and later assigned a production rating. The results are as follows:

| Worker | Test Score | Production Rating |
|--------|------------|-------------------|
| A | 53 | 45 |
| B | 36 | 43 |
| C | 88 | 89 |
| D | 84 | 79 |
| E | 86 | 84 |
| F | 64 | 66 |
| G | 45 | 49 |
| H | 48 | 48 |
| I | 39 | 43 |
| J | 69 | 76 |

Fit a linear least square regression equation of production rating on test score.

13. As a result of tests on 20,000 electric fans manufactured by a company, it was found that lifetime of the fans was normally distributed with an average life of 2,040 hours and standard deviation of 60 hours. On the basis of this information, estimate the number of fans that is expected to run for (a) more than 2,150 hours and (b) less than 1,960 hours.

SECTION - C (Compulsory)

(1×10=10)

14. The number of employees, daily wages per employee and the variance of the wages per employee for two factories are given below:

| | Factory A | Factory B |
|--|-----------|-----------|
| Number of employees | 50 | 100 |
| Average daily wages per employee (₹) | 120 | 85 |
| Variance of the daily wages per employee (₹) | 9 | 16 |

a) Which factory has a greater variation in the distribution of daily wages per employee?

b) Suppose in Factory B, the daily wage of an employee was wrongly noted as ₹ 120 instead of ₹ 100, what would be the correct variance for Factory B?

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Semester I – P.G. Examination - M.Com. (Finance and Analytics)
February - 2022

FINANCIAL MANAGEMENT AND POLICY

Time: 3 hrs.

Max Marks: 70

Answer any **FIVE** of the following. **SECTION - A**

(5×4=20)

1. What are the various types of financial decisions?
2. List out the determinants of cost of capital.
3. What is optimal capital structure?
4. Explain briefly the net income approach of capital structure.
5. What are the different forms of dividend?
6. A company issues 11% debentures of ₹ 100 for an amount aggregating ₹ 1,00,000 at 10% premium redeemable at par after 5 years. The company's tax rate is 35 percent. Determine the cost of debt.
7. From the following information determine the theoretical market value of equity shares of a company as per Walter's model.

| | |
|------------------------------|------------|
| Earnings of the company | ₹ 5,00,000 |
| Dividends paid | ₹ 3,00,000 |
| Number of shares outstanding | ₹ 1,00,000 |
| Price earning ratio | 8 |
| Rate of return on investment | 0.15 |

Are you satisfied with the current dividend policy of the firm? What should be the optimal dividend payout ratio in this case?

SECTION - B

Answer any **FOUR** of the following.

(4×10=40)

8. Excel Ltd is considering three financing plans. The key information is as follows:
 - a) Total funds to be raised 2,00,000
 - b) Financing plans

| plans | Equity (%) | Debt (%) | Preference (%) |
|-------|------------|----------|----------------|
| A | 100 | -- | -- |
| B | 50 | 50 | -- |
| C | 50 | -- | 50 |

- c) Cost of debt is 8%; cost of preference share 8%.
 - d) Tax rate 35%.
 - e) Equity shares of the face value of ₹ 10 each will be issued at a premium of ₹ 10 per share.
 - f) Expected EBIT – ₹ 80,000.
- Determine for each plan the Earnings per share (EPS).

PS 357.1

9. Skyline software has on its books the following amounts and specific costs of each type of capital.

| Type of capital | Book value (₹) | Market value (₹) | Specific costs (%) |
|-------------------|-------------------|---------------------|-----------------------|
| Debt | 4,00,000 | 3,80,000 | 5 |
| Preference | 1,00,000 | 1,10,000 | 8 |
| Equity | 6,00,000 | 12,00,000 | 15 |
| Retained earnings | 2,00,000 | 16,90,000 | 13 |
| | 13,00,000 | | |

Determine the weighted average cost of capital using

- Book value weights
- Market value weights
- How are they different? When would WACC be the same using either of the weights?

10. Explain the Net Operating Income Approach of capital structure theory.

11. Two companies U and L belong to an equivalent risk class. These two firms are identical in every respect that company U is unlevered while company L has 10% debentures of ₹ 30 lakhs. The other relevant information regarding their valuation and capitalization rates are as follows:

| Particulars | Firm U | Firm L |
|---|-----------|-----------|
| Net operating income (EBIT) | 7,50,000 | 7,50,000 |
| Interest on debt (I) | - | 3,00,000 |
| Earnings to equity holders | 7,50,000 | 4,50,000 |
| Equity capitalization rate (K_e) | 0.15 | 0.20 |
| Market value of equity (S) | 50,00,000 | 22,50,000 |
| Market value of debt (B) | - | 30,00,000 |
| Total value of the firm (V) | 50,00,000 | 52,50,000 |
| Implied overall capitalization rate (K_0) | 0.15 | 0.143 |
| Debt equity ratio (B/S) | 0 | 1.33 |

- An investor owns 10% equity shares of Company L. Show the Arbitrage Process and the amount by which he would reduce his outlay through the use of leverage.
 - According to Modigliani and Miller, when will this arbitrage process come to an end?
12. Explain in detail the supremacy of the Wealth maximization objective over the Profit Maximization Objective.

13. Calculate

- Operating leverage
 - Financial leverage
 - Combined leverage
- from the following data under situations I and II financial plans A and B.

| | |
|-----------------------------|-----------------------|
| Installed capacity | : 40,000 units |
| Actual production and sales | : 75% of the capacity |
| Selling price | : ₹ 300 per unit |
| Variable cost | : ₹ 150 per unit |

Fixed cost:

| | |
|--------------------|--------------|
| Under situation I | : ₹ 1,50,000 |
| Under situation II | : ₹ 2,00,000 |

Capital structure :

| Particulars | Financial Plan | |
|---------------------|----------------|------------|
| | A | B |
| Equity | ₹ 1,00,000 | ₹ 1,50,000 |
| Debt (20% interest) | 1,00,000 | 50,000 |
| | 2,00,000 | 2,00,000 |

SECTION - C (Compulsory)

14. As a financial analyst of a large electronics company you are required to determine the weighted average cost of capital of the company using
a) Book value weights and b) Market value weights

The following information is available:

The company's present book value capital structure is:

| | |
|--------------------------------------|--------------------|
| Debentures (₹ 100 per debenture) | ₹ 8,00,000 |
| Preference shares (₹ 100 per share) | ₹ 2,00,000 |
| Equity shares (₹ 10 per share) | ₹ 10,00,000 |
| | <u>₹ 20,00,000</u> |

All these securities are traded in the capital markets.

Recent prices are: Debentures ₹ 110 per debentures;

Preference shares ₹ 120 per share;

Equity shares ₹ 22 share

Anticipated external financing opportunities are:

- ₹ 100 per debenture redeemable at par ; 10 year maturity, 11% coupon rate, 4% flotation costs, sale price ₹ 100.
- ₹ 100 preference share redeemable at par; 10 year maturity , 12% dividend rate, 5% flotation costs, sale price ₹ 100.
- Equity shares ₹ 2 per share floatation costs; sale price ₹ 22.

In addition the dividend expected on the equity share at the end of the year is ₹ 2 per share; the anticipated growth rate in dividends is 7% and the firm has the practice of paying all its earnings in the form of dividends.

The corporate tax rate is 35%.
