NOVEMBER 2022 **66406/KD21B/KB21B**

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer any TEN questions.

1. List out the various sources of Short term finance

2. What is meant by preferred stock?

3. State the meaning of undercapitalization.

4. What is Financial Leverage?

5. State the formula for calculating EPS

6. What is meant by Marginal Cost of Capital (MCC)?

7. What is the meaning of Relevance concept of Dividend?

8. What is Present Value?

9. Define Uncertainty under capital budgeting decisions

10. What is Temporary Working Capital?

11. Annual Cash requirements — Rs. 1,20,000; Fixed Cost per transaction — Rs. 10; Interest rate on marketable securities — 12% p. a. Calculate Optimum Cash Balance.

12. EOQ = 500 units; Lead Time — 3 weeks; Weekly Usage — 50 units; Safety Stock = 100 units. Calculate Maximum Stock Level.

PART B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. What is financial planning? State its importance.

14. What are the causes for undercapitalization? Suggest remedies to overcome undercapitalization.

15. What are the essentials of Walter's Dividend Model? Explain its shortcomings.

16. Enumerate the factors affecting evaluation of alternative investment proposals.

17. Power Corporation Limited feels that it is possible to increase sales if credit terms are relaxed. Its sales at present is Rs.5,00,000, Profit Volume ratio is 30%, Fixed costs are Rs. 60,000, Bad debts 1% and Accounts Receivables turnover ratio is 10 times. The relaxed credit policy is expected to increase sales to Rs.6,00,000. However, bad debts will rise to 2% of sales and Accounts Receivable turnover will decrease to 6 times, Assuming 20% return, should the firm relax its credit policy?

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18. Star Limited buys in lots of 500 boxes to meet the requirements of 4 months. The cost per box is Rs.250 and the ordering cost is Rs,150. Inventory carrying cost is estimated at 10% of the unit value.

    (a) What is the annual cost of present inventory policy?

    (b) How much savings can be made if EOQ is adopted?

19. The following projections have been given in respect of companies X and Y.

Particulars	Company X	Company Y
Volume of output and sales	80,000 units	10,0000 units
Variable Cost per unit	Rs.4	Rs.3
Fixed Cost	Rs.2,40,000	Rs,2,50,000
Interest burden on debt	Rs,1,20,000	Rs.50,000
Selling Price per unit	Rs.10	Rs.8

On the basis of above information calculate

(a) Operating Leverage,

(b) Financial Leverage and

(c) Combined Leverage

PART C — (4 × 10 = 40 marks)

Answer any FOUR questions.

20. Examine the merits and demerits of the following instruments of raising finance (a) Redeemable Preference Shares and (b) Debentures.

21. Describe various determinants of Capital Structure.

22. What are the different methods of accounting for risk in capital budgeting decisions? Explain.

23. Discuss the factors influencing the size of accounts receivables.

24. Sunshine Limited has an equity capital 6,000 shares of Rs.100 each, The company plans to raise Rs.4,00,000 for expansion and modernization. The following alternatives are under consideration

    (a) Issue of Common Stock

    (b) Issue of Common Stock for Rs.2,00,000 and 10% debt for Rs.2,00,000

(c) Issue of 10% debt

(d) Issue of 10% Preference Shares for Rs.2,00,000 and 10% debt for Rs.2,00,000

The Company's existing earnings before interest and taxes are Rs.4,00,000, The rate of corporate tax is 50%. Determine the earnings per share in each plan and give your comment.

25. A choice is to be made between two competing proposals which require an equal investment of Rs.5,00,000 and are expected to generate cash flows as under:

Particulars	Project I (Rs.)	Project II (Rs.)
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	Nil	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the Company is 10%. The following are the Present Value Factors at 10% per annum.

Year	1	2	3	4	5	6
PV Factor	0.909	0.825	0.751	0.683	0.621	0.564

Which project proposal should be chosen? Why?

Evaluate the project proposal under:

(a) Payback period method

(b) Net present value method

(c) Profitability index method.

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