NATIONAL MANAGEMENT COLLEGE – THUDUPATHY

CA INTERMEDIATE (2022-2023) – MODEL EXAMINATION – I

PAPER : FINANCIAL MANAGEMENT

MARKS: 60 MARKS TIME: 1.45 HOURS

ANSWER THE FOLLOWING QUESTIONS:(6*10=60 Marks) :

1. The following information of ASD Ltd. relate to the year ended 31 st March, 2022

Net profit	8% of sales
Raw materials consumed	20% of cost of Goods Sold
Direct wages	10% of cost of Goods Sold
Stock of raw materials	3 moths' usage
Stock of finished goods	6% of cost of Goods Sold
Gross profit	15% of sales
Debt collection period	2 Moths
(All sales are on credit)	
Current ratio	
Fixed assets to Current assets	2 : 1
Fixed assets to Sales	13:11
Fixed assets to sales	1:3
Long-term loans to Current liabilities	2:1
Capital to Reserves and Surplus	1:4

You are required to PREPARE-

(a) Profit & Loss statement of ASD Limited for the year ended 31^{st} March, 2022 in the following format

Particulars	(₹)	Particulars	(₹)
To Direct Materials consumed	?	By Sales	?
To Direct Wages	?		
To Works (Overhead)	?		
	?		?
To Selling and Distribution Expenses	?	By Gross profit b/d	?
To Net profit	?		
	?		?

(b)Balance Sheet as on 31st March, 2022 in the following format.

Liabilities	(₹)	Assets	(₹)
Share Capital	?	Fixed Assets:	1,30,00,00
Reserves and surplus	?	Current Assts:	
		Stock of Raw Materials	?
Long term loans	?	Stock of Finished Goods	?
Current liabilities	?	Debtors	?
		Cash	?
	?		?

2. Bounce Ltd. Evaluates all its capital projects using discounting rate of 15% . Its capital structure consists of equity share capital, retained earnings, bank term loan and debenture and bank loan is 3 years and 5 years respectively. Book value of equity share capital, retained earnings and bank loan is Rs. 10,00,000, Rs. 15,00,000 and Rs. 10,00,000 respectively. Debentures which are having book value of Rs. 15,00,000 are currently trading at Rs. 97 per debenture. The ongoing P/E multiple for the shares of the company stands at .

5. You are required to CALCULATE the rate of interest on bank loan and debentures if tax rate applicable is 25%.

3. ABC Limited provides you the following information:

	(₹)
Profit (EBIT)	2,80,000
Less: Intt. On Debt @10%	40,000
EBT	2,40,000
Less: Income Tax @ 50%	1,20,000
	1,20,000
No. of Equity Shares (₹ 10 each)	30,000
Earnings per share (EPS)	4
Price / EPS (P/E) Ratio	10
Ruling Market price per share	40

The company has undistributed reserves of Rs.7,00,000 and needs Rs. 4,00,000 further for expansion. The investment is expected to earn the same rate as funds already invested. You are informed that a debt equity (debt/debt + equity) ratio higher than 32% will push the P/E ratio down to 8 and raise the interest rate on additional borrowings (debentures) to 12%. You are required to ASCERTAIN the probable price of the share.

(i) If the additional funds are raised as debt; and
(ii) If the amount is raised by issuing equity shares at ruling market price of Rs.40 per share.

4. Debu Ltd. Currently has an equity share capital of Rs. 1,30,00,000 consisting of 13,00,000 Equity shares. The company is going through a major expansion plan requiring to raise funds to the tune of Rs. 78,00,000. To finance the expansion the management has following plans:

Plan-I : Issue 7,80,000 Equity shares of Rs. 10 each.

Plan-II : Issue 5,20,000 Equity shares of Rs. 10each and the balance through long-term borrowing at 12% interest p.a.

Plan-III : Issue 3,90,000 Equity shares of Rs. 10 each and 39,000, 9% Debentures of Rs. 100 each.

Plan-IV : Issue 3,90,000 Equity shares of Rs. 10 each and the balance through 6% preference shares.

EBIT of the company is expected to be Rs. 52,00,000 p.a.
Considering corporate tax rate @ 40%, you are required to-

(i) CALCULATE EPS in each of the above plans.
(ii) ASCERTAIN financial leverage in each plan and comment.

5.From the following information, find out missing figures and REWRITE the balance sheet of Mukesh Enterprise.

Current Ratio = 2:1
Acid Test ratio = 3:2
Reserves and surplus = 20% of equity share capital
Long term debt = 45% of net worth
Stock turnover velocity = 1.5 months
Receivables turnover velocity = 2 months You may assume closing Receivables as average

Receivables.
Gross profit ratio = 20%
Sales is Rs. 21,00,000 (25% sales are on cash basis and balance on credit basis)
Closing stock is Rs. 40,000 more than opening stock.
Accumulated depreciation is 1/6 of original cost of fixed assets.

Balance sheet of the company is as follows:

Liabilities	(₹)	Assets	(₹)
Equity share capital	?	Fixed Assets (cost)	?
Reserves & surplus	?	Less: Accumulated. Depreciation	?
Long Term Loans	6,75,000	Fixed Assets (WDV)	?
Bank Overdraft	60,000	Stock	?
Creditors	?	Debtors	?
		Cash	?
Total	?	Total	?

6. Current Capital Structure of XYZ Ltd is as follows:

Equity Share Capital of 7 lakh shares of face value Rs. 20 each
Reserves of Rs. 10,00,000
9% bonds of Rs. 3,00,00,000
11% preference capital: 3,00,000 shares of face value Rs. 50 each
Additional Funds required for XYZ Ltd are Rs. 5,00,00,000.

XYZ Ltd is evaluating the following alternatives:

I. Proposed alternative II: Raise the funds via 50% equity capital and rest from 12% preference capital. PE ratio in such scenario would be 11. Any new equity capital would be issued at a face value of Rs. 20 each. Any new preferential capital would be issued at a face value of Rs. 20 each. Tax rate is 34%

DETERMINE the indifference point under both the alternatives.