



- c. Manish corporation currently provides 45 days of credit to its customers. Its present sales are ₹ 80 million. The firm's cost of capital is 13% and the ratio of variable cost to sales is 0.75. Manish is considering extending its credit period to 60 days. Such an extension is likely to push sales up by ₹20 million. The bad debt proportion on additional sales will be 10%. The tax rate for Manish is 35%. What will be the effect of lengthening the credit period on the residual income of Manish? (10 Marks)
- 5 a. What is working capital leverage? (03 Marks)
- b. What is merger? Briefly explain the different types of merger. (07 Marks)
- c. The following information is available for two companies, A Ltd. and B Ltd. [ ₹ in million ]

Particulars	A Ltd.	B Ltd.
Current Assets	150	50
Net Fixed Assets	50	150
Total Assets	200	200
EBIT	30	30
ROI	15%	15%

Calculate working capital leverage if there is a 20% reduction/increase in current assets.

(10 Marks)

- 6 a. Write a note on postal float and lethargy float. (03 Marks)
- b. Advani chemicals limited estimates its total cash requirements as ₹2 crore next year. The company's opportunity cost of fund is 15%. The company will have to incur ₹100 per transaction, when it converts its short term securities to cash.
- (i) Determine optimum cash balance (ii) How much is the total annual cost of the demand for the optimum cash balance? How many deposits will have to be made during the year? (07 Marks)
- c. Company X and Y are in the same risk class and are identical in every respect except that company 'X' uses debt, while company 'Y' does not. The levered firm has 9,00,000 debentures carrying 10% rate of interest. Both the firm has assets of ₹ 15 lakhs. Assume perfect capital market, rational investors and so on; a tax rate of 35% and capitalization rate of 15% for an all equity company.
- (i) Compute the value of firm X and Y using NI approach.
- (ii) Compute value of each firm using NOI approach.
- (iii) Using NOI approach, calculate overall cost of capital of both firm X and Y.
- (iv) Which of the two firm has an optimum capital structure as per NOI approach. (10 Marks)
- 7 a. If a company in India wishes to declare the dividend, what are the legal and procedural aspects that should be considered. (10 Marks)
- b. "There are two dangerous situations that manager should usually avoid in controlling inventories". Explain. (05 Marks)
- c. A company earns ₹ 10 per share at an internal rate 15%. The firm has a policy of paying 40% of earnings as dividends. If the required rate of returns is 10%, determine the price of the share under Walter model. (05 Marks)

8 Prepare a cash Budget for the period January to June, form the following information:

(i) The estimated sales and expenses are as follows:

Particulars	Amount							
	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Sales	2,00,000	2,20,000	1,20,000	1,00,000	1,50,000	2,40,000	2,00,000	2,00,000
Wages and salaries	30,000	30,000	24,000	24,000	24,000	30,000	27,000	27,000
Misc. Expenses	27,000	27,000	21,000	30,000	24,000	27,000	27,000	27,000

- (ii) 20% of sales are on cash balance on credit.  
 (iii) The firm has a gross margin of 25% on sales.  
 (iv) 50% of credit sales are collected in the month after the sales, 30% in the second month after the sale and 20% in the third month.  
 (v) Material for the sale of each month is one month in advance, on a credit for two months.  
 (vi) Time lag in payment of miscellaneous expenses and 1/3 of salaries in one month.  
 (vii) Debenture worth ₹ 40,000 sold in January.  
 (viii) The firm maintains a minimum cash balance of ₹ 40,000. Funds can be borrowed @ 12% p.a. in the multiples of ₹ 1000, the interest being payable on monthly basis.  
 (ix) Cash balance at the end of December-13 is ₹ 60,000.

(20 Marks)

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