

a)	Projected annual sales	1,00,000 units
b)	Selling price	Rs 8 per unit
c)	Percentage of net profit on sales	25%
d)	Average credit period allowed to customers	8 weeks
e)	Average credit period allowed by suppliers	4 weeks
f)	Average stock holding in terms of sales requirement	12 weeks
g)	Allow 10% for contingencies	

(Or)

9. b) Summarize the models of Cash Management.

CO5K2

Part - C

Answer all the questions

3 x 12 = 36

Answer should not exceed 800 words or four pages

10. a) H.B.P. Ltd. expects annual net operating income of Rs 2,00,000. It has Rs 5,00,000 outstanding debt, cost of debt is 10%. If the overall capitalization rate is 12.5% what would be the total value of the firm and the equity capitalisation rate according to the Net Operating Income approach.

What will be the effect of the following on the total value of the firm and equity capitalization rate, if:

- The firm increases the amount of debt from Rs 5,00,000 to Rs 7,50,000 and uses the proceeds of the debt to repurchase equity shares.
- The firm redeems debt of Rs 2,50,000 by issuing fresh equity shares of the same amount.

CO3K3

(Or)

10. b) XYZ company has currently an equity share capital of Rs 40 lakhs consisting of 40,000 equity shares of Rs 100 each. The management is planning to raise another Rs 30 lakhs to finance a major programme of expansion through one of the four possible financing plans.

The options are:

- Entirely through equity shares.
- Rs 15 lakhs in equity shares of Rs 100 each and the balance in 8% Debentures.
- Rs 10 lakhs in equity shares of Rs 100 each and the balance through long-term borrowings at 9% interest p.a.
- Rs 15 lakhs in equity shares of Rs 100 each and the balance through preference shares with 5% dividend.

The company's expected earnings before interest and taxes (EBIT) will be Rs 15 lakhs. Assuming corporate tax rate of 50%, you are required to determine the EPS and comment on the financial leverage that will be authorised under each of the above scheme of financing.

CO3K3

11. a) The following information is available in respect of the rate of return on investment (r), the cost of capital (k) and the earning per share (E) of ABC Ltd.

Rate of return on investment (r) = (i) 15%; (ii) 12%; and (iii) 10%

Cost of capital = (k) 12%

Earnings per share (E) = Rs 10

Determine the value of its shares using Gordon's Model assuming the following:

CO4K3

	D/p ratio (1-b)	Retention ratio (b)
(a)	100	0
(b)	80	20
(c)	40	60

(Or)

11. b) What do you mean by dividend policy? Explain the determinants of dividend policy.

CO4K2

12. a) The following information has been provided by a company for the year ended 31.3.2020:

Liabilities	Rs	Assets	Rs
Equity share capital	2,00,000	Fixed assets less depreciation	3,00,000
8% Debentures	1,00,000	Inventories	1,00,000
Reserves and surplus	50,000	Sundry debtors	70,000
Long-term loans	50,000	Cash and bank	10,000
Sundry creditors	80,000		
	4,80,000		4,80,000

Sales for the year ended 31.3.2020 amounted to Rs 10, 00,000 and it is estimated that the same will amounts to Rs 12, 00,000 for the year 2020-2021.

You are required to estimate the working capital requirements for the year 2020-21 assuming a linear relationship between sales and working capital.

CO5K3

(Or)

12. b) Discuss the various aspects or dimensions of receivables management.

CO5K3