

Program: T.Y.B.A.F. Semester: VI Program Code: 2C00156  
Course: Financial Management - III Course Code: 85603  
Duration: 2 ½ Hours Examination Pattern: REV16 Autonomous - External Max. Marks: 75

Instructions:

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Draw neat diagrams wherever necessary.

Examination:  
**REGULAR**

Q.1 A) Fill in the blanks with an appropriate answer from the alternatives given (Any 08) [08]

- i) Internal reconstruction requires \_\_\_\_\_
  - a) Special resolution passed at General meeting
  - b) Special resolution passed at Board meeting
  - c) Ordinary resolution passed at General meeting
  - d) Ordinary resolution passed at Board meeting
- ii) Balance of capital reduction should be transferred to \_\_\_\_\_
  - a) Security premium
  - b) Capital reserve
  - c) Share capital
  - d) Profit and loss account
- iii) Instalment is equal to \_\_\_\_\_
  - a) Principal + Interest
  - b) Principal - Interest
  - c) Cash price + Interest
  - d) Cash price - Down Payment
- iv) In case of Lease, legal title is with \_\_\_\_\_
  - a) Lessor
  - b) Lessee
  - c) Agent
  - d) None of the other options
- v) Fair value of the share is equal to \_\_\_\_\_
  - a) Intrinsic value only
  - b) Yield value only
  - c) Average of Intrinsic value and Yield value
  - d) None of the other options
- vi) Using \_\_\_\_\_ company can evaluate the project performance and decide whether to execute the project or not to execute.
  - a) Intrinsic value
  - b) Fundamental value
  - c) Economic value added
  - d) Salvage value
- vii) Factoring involves \_\_\_\_\_
  - a) Management of debtors
  - b) Borrowing from banks



<b>Secured Loan: -</b>		Cash at Bank	1,50,000
600; 9% Debentures of Rs. 100 each	60,000	Cash in hand	60,000
Sundry Creditors	60,000	Investment in 10% Govt. Securities	50,000
		Preliminary Expenses	40,000
	9,30,000		9,30,000

The average net profit earned by the company amount Rs. 1,14,000. Every year an amount equal to 10% of the profit earned was transferred to general reserve. The industry average rate of return is 10% of the share value. On 31<sup>st</sup> March 2019 independent expert valuer has assessed the values of following assets:

Assets	Rs.
Goodwill	2,07,000
Land and Building	2,40,000
Plant and Machinery	2,40,000
Stock	1,20,000
Debtors	30,000
Investment in 10% Govt. Securities	60,000

On the basis of above information calculate the value of equity shares of company by:

- Net asset method.
- Yield value method.
- Also calculate fair value of the company's share considering above two methods.

OR

- b) Calculate EVA from the following on 31<sup>st</sup> March, 2022 for ZT Ltd. [08]

Financial Leverage	1.4 times
Equity Capital	Rs. 340 lakhs
Reserves and Surplus	Rs. 260 lakhs
10% Debentures	Rs. 800 lakhs
Cost of Equity	17.5%
Income tax rate	30%

- c) Calculate MVA from the following information of Beta Ltd. [07]

Liabilities	Amount (Rs. in lakhs)	Assets	Amount (Rs. In lakhs)
Equity shares capital of Rs. 10 each	2,400	Building	3,600
Retained earning	1,200	Machinery	1,600
8% Term loan	1,600	Stock	200
Bills payable	700	Debtors	160
Provision	860	Bank	1,200
	6,760		6,760

Profit After Tax (PAT) Rs. 4,542 (in lakhs), P/E Ratio = 2

**Q. 3 Answer the following.**

- a) The following information is provided related to the acquiring firm Surya Ltd. and the target firm Tara Ltd. [15]

Particulars	Surya Ltd.	Tara Ltd.
Profit After Tax	Rs. 2,000 lakhs	Rs. 400 lakhs
Number of Equity shares	200 lakhs	100 lakhs

P/E Ratio (Times)	10	5
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1. Calculate the swap ratio based on current market price.
2. What is the EPS of Surya Ltd. after acquisition.
3. What is the expected market price per share of Surya Ltd. after acquisition, assuming P/E multiple of Surya Limited remains unchanged?
4. Determine the market value of the merged firm.
5. Calculate gain/loss for shareholders of the two independent companies after acquisition.

**OR**

b) The Balance sheet of VST Ltd. as on 31.3.2022 as follows:

[15]

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity shares of Rs. 100 each	1,00,00,000	Fixed Asset	1,50,00,000
6% Cumulative Preference shares of Rs. 100 each	50,00,000	Investment (Market value Rs. 19,00,000)	20,00,000
5% Debentures of Rs. 100 each	40,00,000	Current Assets	60,00,000
Sundry Creditors	50,00,000	Profit and Loss A/c	12,00,000
Provision for Taxation	2,00,000		
	2,42,00,000		2,42,00,000

The following scheme of internal reconstruction is sanctioned:

1. All the existing equity shares are reduced to Rs. 40 each.
2. All preference shares are reduced to Rs. 60 each.
3. The rate of interest on debentures increased to 6%. The debenture holders surrender their existing the debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
4. Fixed assets are to be written down by 20%.
5. Current assets are to be valued at Rs. 46,00,000.
6. Investments are to be brought to their market value.
7. One of the creditors of the company to whom the company owes Rs. 40,00,000 decides to forgo 40% of his claim and was allotted with 60,000 equity shares of Rs. 40 each in full and final settlement of his claim.
8. The taxation liability is to be settled at Rs. 3,00,000.
9. It is decided to write off debit balance of profit and loss account.

You are required to:

1. Pass necessary journal entries.
2. Prepare Balance sheet after reduction.

**Q. 4 Answer the following.**

- a) AB Ltd. requires an equipment costing 2,00,000 the same will be utilized over the period of 5 years it has 2 financing option in this regard. The salvage value of equipment at the end of 5<sup>th</sup> year is zero. The company uses straight line depreciation. Assum tax rate is 40%. [15]

Option 1:

To buy with borrowed fund at the cost of 18% p.a. repayable in 5 equal instalments of Rs. 64,000 p.a.

Option 2:

To take equipment on lease and on an annual rent of Rs. 32,000.

Discount factor at 18%.

Year	Value
1	0.847

2	0.718
3	0.609
4	0.516
5	0.437
Total	3.127

Advise the company which option should go for, if internal rate of return 18%.

**OR**

- b) A firm has total credit sales of Rs. 2,00,00,000 and its average collection period is 80 days. [08]  
 Bad debts are around 1% of credit sale. The firm spends Rs. 2,20,000 per year on administer credit sale. A factor is prepared to buy firm receivable. He will advance receivable to the firm at 18% interest after keeping 10% as reserve. Suggest whether the company should opt for inhouse management of debt or factoring service. (Assume number of days in a year is assumed to be 360 days)

- c) MK Co. Ltd. issued commercial paper worth Rs. 100 crores as per the following details: [07]  
 Date of issue – 17<sup>th</sup> January 2021  
 Date of maturity – 17<sup>th</sup> April 2021  
 No. of days – 90  
 Interest rate 11.25%  
 What was the amount received by the company on issue of commercial paper?  
 (Assume number of days in a year to be 365)

**Q. 5 A) Answer the following.**

- i) Distinguish between Merger and Takeover. [08]  
 ii) Explain different types of leases. [07]

**OR**

**B) Short Note: (Any 3) (5 marks each)** [15]

- i) Variations of Shareholders Rights.  
 ii) Synergy  
 iii) Retained Earning  
 iv) Certificate of Deposit  
 v) Types of Factoring

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