J.K. SHAH TEST SERIES
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CA INTERMEDIATE

SUBJECT- F.M.

Test Code – CIM 8441

(Date :)

(Marks - 50)

TOPICS: Ratio, Leverage & Capital Structure

QUESTION 1(A) **(8 MARKS)**

Best of Luck Ltd., a profit making company, has a paid-up capital of Rs. 100 lakhs consisting of 10 lakhs ordinary shares of Rs. 10 each. Currently, it is earning an annual pre-tax profit of Rs. 60 lakhs. The company's shares are listed and are quoted in the range of Rs. 50 to Rs. 80.The management wants to diversify production and has approved a project which will cost Rs. 50 lakhs and which is expected to yield a pre-tax income of Rs. 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

(a) To issue equity share capital for the entire additional amount. It is expected that the new shares (face value of Rs. 10) can be sold at a premium of Rs. 15.

(b) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.

(c) To issue equity capital for Rs. 25 lakhs (face value of Rs. 10) and 16% non-convertible debentures for the balance amount. In this case, the company can issue shares at a premium of Rs. 40 each.

You are **required to advise the management** as to **how the additional capital can be raised,** keeping in mind that the management wants to maximise the earnings per share to maintain its goodwill. The company is paying income tax at 50%.

QUESTION 1(B) **(7 MARKS)**

XY Ltd. provides the following information for the year ending 31st March, 2017:

Equity Share Capital	Rs. 8,00,000
Closing Stock	Rs. 1,50,000
Stock Turnover Ratio	5 times
Gross profit ratio	20%
Net profit/Sales	16%
Net Profit/Capital	25%
Equity Share Capital	Rs.8,00,000

You are required to prepare:

Trading and Profit & Loss Account for the year ending 31st March, 2017.

QUESTION 1(C) **(5 MARKS)**

Consider the following information for Omega Ltd.:

	Rs. in lakhs
EBIT (Earnings before Interest and Tax)	15,750
Earnings before Tax (EBT):	7,000
Fixed Operating costs:	1,575

Required:

Calculate percentage change in earnings per share, if sales increase by 5%.

QUESTION 2 **(10 MARKS)**

The management of Z Company Ltd. wants to raise its funds from market to meet out the financial demands of its long-term projects. The company has various combinations of proposals to raise its funds. You are given the following proposals of the company:

(i) Proposals	% of Equity	% of Debts	% of Preference shares
P	100	-	-
Q	50	50	-
R	50	-	50

(ii) Cost of debt – 10%
Cost of preference shares – 10%

(iii) Tax rate – 50%

(iv) Equity shares of the face value of Rs. 10 each will be issued at a premium of Rs. 10 per share.

(v) Total investment to be raised Rs. 40,00,000.

(vi) Expected earnings before interest and tax Rs. 18,00,000.

From the above proposals the management wants to take advice from you for appropriate plan after computing the following:

- Earnings per share
- Financial break-even-point
- Compute the EBIT range among the plans for indifference. Also indicate if any of the plans dominate.

QUESTION 3 **(10 MARKS)**

The following are the Ratios extracted from the Balance Sheet of a company as at 31st December, 2010. **Draw up the Balance Sheet of the firm.**

Current liabilities	1.0
Current Assets	2.5
Working Capital	Rs. 3,00,000
Liquidity Ratio	1.5
Stock Turnover Ratio	6
Gross Profit Ratio	20%
Debt Collection period	2 months
Shareholders' Capital	Rs. 5,00,000
Reserve and Surplus	Rs. 2,50,000
Fixed Asset Turnover (on Cost of Sales)	2

QUESTION 4 **(10 MARKS)**

From the following financial data of Company A and Company B: **Prepare their Income Statements.**

	Company A (Rs.)	Company B (Rs.)
Variable Cost	56,000	60% of sales
Fixed Cost	20,000	-
Interest Expenses	12,000	9,000
Financial Leverage	5 : 1	-
Operating Leverage	-	4 : 1
Income Tax Rate	30%	30%
Sales	-	1,05,000