CA Nitin Guru

Subject- **Financial Management - By CA NITIN GURU**

Mock Test – 3

Ratios and Cost of Capital

Time: 40 Minutes M.M. – 25 Marks

Instructions-

1. This is a self paced test series, where you can do the test anytime after you complete your chapter and attempt the test and email it to us for checking or self evaluation with help of the solution set provided. For video solutions and test paper to be checked please email us at email id provided below.
2. Answer Sheet is in a single pdf format.
3. First Sheet contains all the information- Name, Registered Email id, Registered Mobile No., Test Number with Subject, website name through which you are watching our class..
4. NO late submission will be entertained.
5. NO answer sheet will be accepted over a chat box or telegram or any other mode other than email.
6. Test solutions should be emailed to test.canitinguru@gmail.com
7. Please give us at least 10 working days time to check and send back your test copy.
8. Sir, will record test paper discussion video as well, which you can watch and clarify your doubts if you have any. Solution videos will be available on youtube and please join our telegram channel @canitinguru to be updated with any announcement about test discussion.

Question 1. **[10 Marks]**

FM Ltd. is in a competitive market where every company offers credit. To maintain the competition, FM Ltd. sold all its goods on credit and simultaneously received the goods on credit.
The company provides the following information relating to current financial year:

Debtors Velocity	3 months
Creditors Velocity	2 months
Stock Turnover Ratio (on Cost of Goods Sold)	1.5
Fixed Assets turnover Ratio (on Cost of Goods Sold)	4
Gross Profit Ratio	25%
Bills Receivables	Rs 75,000
Bills Payables	Rs 30,000
Gross Profit	Rs 12,00,000

FM Ltd. has the tendency of maintaining extra stock of Rs 30,000 at the end of the period than that at the beginning. DETERMINE:

(i) Sales and cost of goods sold
(ii) Sundry Debtors
(iii) Closing Stock
(iv) Sundry Creditors
(v) Fixed Assets

Question 2. **[10 Marks]**

The Capital structure of PQR Ltd. is as follows:

	Rs
10% Debenture	3,00,000
12% Preference Shares	2,50,000
Equity Share (face value Rs 10 per share)	5,00,000
	10,50,000

Additional Information:

(i) Rs 100 per debenture redeemable at par has 2% floatation cost & 10 years of maturity. The market price per debenture is Rs 110.
(ii) Rs 100 per preference share redeemable at par has 3% floatation cost & 10 years of maturity. The market price per preference share is Rs 108.
(iii) Equity share has Rs 4 floatation cost and market price per share of Rs 25. The next year expected dividend is Rs 2 per share with annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.
(iv) Corporate Income Tax rate is 30%. Required:

Calculate Weighted Average Cost of Capital (WACC) using market value weights.

Question 3. **[05 Marks]**

ABC Company's equity share is quoted in the market at Rs 25 per share currently. The company pays a dividend of Rs 2 per share and the investor's market expects a growth rate of 6% per year.
You are required to:

(i) CALCULATE the company's cost of equity capital.
(ii) If the company issues 10% debentures of face value of Rs 100 each and realises Rs 96 per debenture while the debentures are redeemable after 12 years at a premium of 12%, CALCULATE cost of debenture Using YTM?

Assume Tax Rate to be 50%.