CA Nitin Guru

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

Mock Test – 8

Financing Decisions – Leverages; Investment Decisions

Time: 1 Hour M.M. – 20 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]**

The information related to XYZ Company Ltd. for the year ended 31st March, 2020 is as follows:

Equity Share Capital of Rs 100 each	**Rs 50 Lakhs**
12% Bonds of Rs 1000 each	**Rs 30 Lakhs**
Sales	**Rs 84 Lakhs**
Fixed Cost (Excluding Interest)	**Rs 7.5 Lakhs**
Financial Leverage	**1.39**
Profit-Volume Ratio	**25%**
Market Price per Equity Share	**Rs 200**
Income Tax Rate Applicable	**30%**

You are required to compute the following:

(i) Operating Leverage
(ii) Combined Leverage
(iii) Earnings per share
(iv) Earning Yield

Question 2. [10 Marks]

XYZ Ltd. is planning to introduce a new product with a project life of 8 years. Initial equipment cost will be Rs 3.5 Crores. Additional equipment costing Rs 25,00,000 will be purchased at the end of the third year from the cash inflow of this year. At the end of 8 years, the original equipment will have no resale value, but additional equipment can be sold for Rs 2,50,000. A working capital of Rs 40,00,000 will be needed and it will be released at the end of eighth year. The project will be financed with sufficient amount of equity capital.

The sales volumes over eight years have been estimated as follows:

Year	1	2	3	4-5	6-8
Units	72,000	1,08,000	2,60,000	2,70,000	1,80,000

A sales price of Rs 240 per unit is expected and variable expenses will amount to 60% of sales revenue. Fixed cash operating costs will amount Rs 36,00,000 per year. The loss of any year will be set off from the profits of subsequent two years. The company is subject to 30 per cent tax rate and considers 12 per cent to be an appropriate after tax cost of capital for this project. The company follows straight line method of depreciation.

Required:

CALCULATE the net present value of the project and advise the management to take appropriate decision.

Note:

The PV factors at 12% are

Year	1	2	3	4	5	6	7	8
PV Factor	0.893	0.797	0.712	0.636	0.567	0.507	0.452	0.404