Flow Chart

How to Proceed for the 50 marks Case Study in the Exam?

You should attempt Q1. after completing Q2. to Q6. So that you can attempt the same with free mind and ample time in hand.

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Read the Question first and not the passage because it is better to know the destination before starting the journey.

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After reading the question, try to understand and analyze that in what combination of chapters, the questions are given in the paper.

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After analyzing and depicting about the specified chapters covered, then go for reading the passage.

Note from the Author:

The 50 marks case study can be theoretical or practical based or a combination of both. The presentation of answer runs parallel to the content. There has to be a balance between Quality and Quantity of answers.

CAPITAL, COMMODITY AND MONEY MARKET

(Elective Paper 9.2)

Time allowed : 3 hours *Maximum marks : 100*

***NOTE**: Answer **ALL** Questions.*

Question 1

The following is the Balance Sheet as at 31st March 2017 of RKD Company Ltd. :

Items	₹	₹
10,000 equity shares of ₹100 each fully paid up	*10,00,000*	
25,000 11% cum preference shares of ₹10 each fully paid up	*2,50,000*	*12,50,000*
Reserves and surplus		*25,00,000*
Secured loans		*20,00,000*
Unsecured loans		*12,00,000*
Trade creditors		*18,00,000*
Outstanding expenses		*7,50,000*
Total liabilities		*95,00,000*
Fixed assets		*55,00,000*
Current assets		*37,00,000*
Advances and deposits		*3,00,000*
Total assets		*95,00,000*

The company plans to manufacture a new product in line with its current production, the capital cost of which is estimated to be ₹25,00,000. The company desires to finance a new project to the extent of ₹16 lakhs by issue of equity shares at a premium of ₹100 per share or by issue of 12% debentures and the balance to be raised from internal sources.

Additional information made available to you are :

(a) Rate of dividends declared in the past 5 years i.e. year ended 31st March 2017, 31st March 2016, 31st March 2015, 31st March 2014, 31st March 2013 were 24%, 24%, 20%, 20% and 18% respectively.

(b) Normal earning capacity (net of tax) of the business is 10%.

(c) Turnover in the last three years i.e. 31-03-2017, 31-03-2016 and 31-03-2015 was ₹80 lakh, 60 lakh and 50 lakh respectively.

(d) Anticipated additional sales from the new project —₹30 lakh annually.

(e) *Net profit before tax from the existing business which was 10% in the last three years is expected to increase to 12% on account of new product sales.*

(f) *Income-Tax rate is 35%.*

(g) *The trend of market price of the equity share of company quoted on the Stock Exchange was :*

Year	High (₹)	Low (₹)
2016-17	300	190
2015-16	250	180
2014-15	240	180

You are required to examine the following :

(i) *Current EPS and debt equity ratio for the year ended 31-03-2017.* *(12 marks)*

(ii) *Expected EPS and debt equity ratio if ₹16,00,000 financed by issue of 8,000 new equity shares of ₹100 each at premium of ₹100 each.* *(8 marks)*

(iii) *Expected EPS and debt equity ratio if ₹16 lakh financed by issue of 12% debentures at par.* *(10 marks)*

Now Please explain :

(a) *Expected market value of share in above (i) to (iii) situtations.* *(10 marks)*

(b) *Which company's proposal is justified ? Do you have any suggestions to offer in this regard.* *(10 marks)*

Answer 1(i)

Current EPS for the year ended 31-03-2017

	Rs.
Sales	80,00,000
Net Profit (Rs. 80,00,000 x 10/100)	8,00,000
Less: Income – Tax @35%	2,80,000
Profit After Tax	5,20,000
Less: Preference Dividend (Rs. 2,50,000 x 11/100)	27, 500
Profit Available for Equity Shareholders	4,92,500
No. of Equity Shares	10,000

Current EPS = Rs. 4,92,500/10,000 = Rs. 49.25