Name → Prashant Rautela
Subject → CAFM
Topic Name → Capital structure, Capital Budgeting, Issue
of share, Forecasting of financial
Statement

23/50

Question to Answer ÷ 1

$1\frac{1}{2}$

Entire question to be solved on 10000 Shares.

Particular	Dr (₹)	Cr (₹)
1) Bank A/c — Dr (13000×4)	52000	
to equity share Application A/c		52000
(Being application money received)		
• Eq Share Application A/c — Dr (1000×4)	4000	
to Bank A/c		4000
(Being money Rejected and Refunded)		
• Eq. Share Application A/c — Dr (12000×4)	48000	**8000**
to eq. Share Allotment A/c (12000×4)		48000
(Being application money pro-rata allotment)	To Capital A/c	40,000
2) Eq. Share Allotment A/c — Dr (12000×8)	96000	
to eq. Share Capital A/c (12000×5)		60,000
to Securities Premium A/c (12000×3)		36000
(Being Allotment money due)		
Bank A/c — Dr	960,000	
to eq. Share allotment A/c		960,000
(Being allotment money received)		

1

	Dr. (₹)	Cr (₹)
3) Eq. Share 1st Call A/c —Dr (12000×1)	12000	
to eq. Share Capital A/c		12000
(Being Call money due)		
Bank A/c —Dr	11500	
to eq. share Call A/c		11500
[500 share are not received]		
[∴ 12000 − 500 = 11500]		
(Being Call money received)		
4) Eq. Share Capital A/c —Dr (500×10)	5000	
Securities Premium A/c —Dr (500×3)	1500	
Eq. Share Call A/c —Dr (500×1)	(500)	
to forfeited Share A/c —Cr		7000
(Being forfeiture of Mr. R's shares)		
money due)		
Forfeited share A/c	~~4200~~	
to Profit & Loss A/c		~~4200~~
Bank A/c —Dr (350 × 8)	2800	
to Share forfeited A/c		2800
(Being forfeiture money received)		
Forfeited shares A/c —Dr	4200	
to Profit and loss A/c		4200
(7000 − 2800) = 4200		

Forfeiture & Re-issue entry is incorrect.

(9)

Question to Answer : 4

Particular	Amount (₹)
Sales	90,00,000
(−) VC (60% of sales)	(54,00,000)
Contribution	36,00,000
(−) Fixed Cost	(10,00,000)
EBIT	26,00,000
(−) Intrest (12% of 40,00,000)	(4,80,000)
EBT	21,20,000
(−) Tax @ 30%	(6,36,000)
PAT	14,84,000
(−) P.D	—
EAESH	14,84,000
÷ No. of share	÷ 4,00,000
EPS	**3.18**

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{36,00,000}{26,00,000} = \boxed{1.38}$$

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBT}}$$

$$= \frac{26,00,000}{21,20,000} = \boxed{1.23}$$

Combined leverage = Operating leverage × Financial leverage

$$= 1.38 \times 1.23$$

$$= \boxed{1.70}$$

Earning Per share = $\boxed{3.18}$ **3.71**
Avoid Calculation Error.

(ii) Calculation of likely level of EBIT :-

Earning per share = $\dfrac{PAT}{\text{Equity share}}$ = $\dfrac{(EBIT - Int)(1 - tax)}{\text{Equity share}}$

Case I : RS 4.00 = $\dfrac{(EBIT - 489000)(1 - 0.30)}{400,000}$

$$\boxed{EBIT = 2765714}$$

(Int = 40L × 12% = 489000

Case II : RS. 2.00 = $\dfrac{(EBIT - 480,000)(1 - 0.30)}{400,000}$

$$\boxed{EBIT = 16,22,857}$$

Case III = RS. 0 = $\dfrac{(EBIT - 480,000)(1 - 0.30)}{400,000}$

$$\boxed{EBIT = 4,80,000}$$

Question to Answer ÷ 5 (a)

Importance of financial forecasting ÷→

Financial forecasts are a crucial part of business planning, budgeting, operations Funding, that help leaders and outside stakeholders make better choices.

1) It serves as the basis for budgeting decision.

2) It gives business access to cohesive reports, allowing finance departments to establish business goals that are both realistic and feasible.

3) It provide a barometer for those making material financial decision.

4) It provides management valuable insights into the way the business performed in the past and the way it will compare in the future.

5) It provide customizable approach based on the core set of foundational components.

6) To make accurate budget and facilitates to establish relastic realistic business goals.

underline keywords

Question to Answer 5 (b) :

Given in the question :

P = 615000   r = 12%.
n = 6

∴ Present value of Annuity

$$PV = P\left(\frac{1 - (1+r)^{-n}}{r}\right)$$

$$= 615000\left(\frac{1 - (1+12\%)^{-6}}{12\%}\right)$$

PV of Annuity = 2528520

The present value of Annuity 2528520 is less than the cost of buying the machine outright (500,000)

The doctor should buy the X-Ray machine by making a cash payment.

Question to Answer ÷ 3

Calculation of EPS, Break even Point and EBIT under :→

* Proposal P : 100% Equity

- Number of equity share = $\dfrac{40,00,000}{(10+10)}$

$$= 2,00,000 \text{ shares}$$

- Earning after tax (EAT) = 18,00,000 $(1-0.50)$

$$= 18,00,000 \times 0.50 = Rs. 9,00,000$$

- Earning Per share (EPS) = $\dfrac{EAT}{No. of Equityshare}$

$$= \dfrac{9,00,000}{2,00,000} = ₹ 4.5$$

- Financial Break even point = Not applicable directly as there's no debt or preference share

- EBIT Range : NIL

* Proposal Q : 50% Equity, 50% debt

- Equity = 40,00,000 × 0.5 = 20,00,000

$$\dfrac{20,00,000}{(10+10)} = 1,00,000 \text{ shares}$$

- Debt : 40,00,000 × 0.5 = 20,00,000
- Interest : 20,00,000 × 0.10 = Rs. 2,00,000
- EAT = $(1800000 - 2,00,000)(1-0.5)$

$$= Rs. 8,00,000$$

Earning Per share $= \dfrac{800,000}{100,000} =$ Rs. 8

Financial Break even point $= \dfrac{20,00,000 \times 10\%}{1-0.5}$

$= \dfrac{200,000}{0.5}$

$= ₹ 400,000$

only interest part
2,00,000 /—

EBIT Range $= > 1200,000$

※ Proposal R (50% equity and 50% Preference share)

• Equity $= 40,00,000 \times 0.5 = 20,00,000$

∴ $= \dfrac{20,00,000}{(10+10)} = 100,000$ Shares

• Preference share $= 40,00,000 \times 0.5 = 20,00,000$
• Dividend $= 20,00,000 \times 0.10 = 200,000$
• EAT $= (1800,000 - 200,000) \times 0.5$
$= 800,000$

$\dfrac{800000}{100000} = 7/-$

EPS $= \dfrac{800,000 \, (EAT)}{100,000 \, (No. of \ equity \ share)} \to$ Rs. 8

Financial Break even point $= \dfrac{20,00,000 \times 10\%}{1-0.5}$

$= \dfrac{200,000}{0.5}$

$= ₹ 400,000$

EBIT range $= > 1200,000$

Comparison and Conclusion :-

- EPS : Proposal Q and R offer higher EPS than Proposal P.

- Financial Break even point : Proposal Q and R have the same FBEP.

- EBIT Range for Indifference : Proposal Q and R are beneficial when EBIT > 1200.000

Proposal Q is Beneficial.

(8)

Question to Answer :- 2

Projection of Profitability of DP Ltd.

Particulars	Case -I Baseline (₹ Cr)	Case II Best Case (₹ Cr)	Case III Worst Case (₹ Cr)
Sales	200	275	150
(-) Variable Cost	(120)	(154)	(97.5)
Contribution	80	121	52-2
(-) Fixed Cost	(20)	(15)	(25)
(-) Depriciation	(25)	(25)	(25)
EBIT	35	81	2.5
(-) Tax @28.5 %	(10)	(23.08)	(0.71)
EAT	25	57.92	1.79

Working Note :- (1) Base Best Case
   Sales = 200 × 1.375 = ₹ 275 Cr.

Variable Cost = 275 of 0.56
              = ₹ 154 Cr.

Conclusion

2. Worst Case

$$\text{Sales} = 200 \text{ of } 0.75$$
$$= ₹ 150 \text{ cr.}$$

$$\text{Variable cost} = 150 \text{ of } 0.65$$
$$= ₹ 97.5 \text{ cr.}$$