(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 13.09.2019 **MAXIMUM MARKS : 100** **TIMING: 3¼ Hours**

PAPER: FM + ECO

SECTION - A

Q. No. 1 is compulsory.
Candidates are also required to answer any four questions from the remaining five questions.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions top answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.
Working Notes should form part of the respective answer.

Question 1:

(a) From the following data related to a company, you are required to prepare Balance Sheet as at 31st March, 2017:

Current ratio		1.75
Liquid ratio		1.25
Stock turnover ratio	(closing stock)	6 times
Gross profit ratio		20%
Debt Collection period		2 months
Reserve to capital ratio		0.6
Fixed assets turnover ratio	(on cost of goods sold)	1.2
Capital gearing ratio		0.625
Fixed assets to net worth		1.26
Sales for the year		Rs. 15 lakhs

(7 Marks)

(b) Determine the market price of equity shares of ZEROX Ltd. from the following information:

Earnings of the Company	Rs. 10,00,000
Dividend paid	Rs. 6,00,000
Number of shares outstanding	2,00,000
Price earning ratio	8
Rate of Return on Investment	15%

Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend payout ratio? Use Walter's Model.

(6 Marks)

(c) M/s. Navya Corporation has a capital structure of 40% debt and 60% equity. The company is presently considering several alternative investment proposals costing less than Rs. 20 lakhs. The corporation always raises the required funds without disturbing its present debt equity ratio.

The cost of raising the debt and equity are as under:

Project cost	Cost of debt (before tax)	Cost of equity
Upto Rs. 2 lakhs	10%	12%
Above Rs. 2 lakhs & upto to Rs. 5 lakhs	11%	13%
Above Rs. 5 lakhs & upto Rs. 10 lakhs	12%	14%
Above Rs. 10 lakhs & upto Rs. 20 lakhs	13%	14.5%

Assuming the tax rate at 50%, CALCULATE:

(i) Cost of capital of two projects X and Y whose fund requirements are Rs. 6.5 lakhs and Rs. 14 lakhs respectively.

(ii) If a project is expected to give after tax return of 10%, DETERMINE under what conditions it would be acceptable?

(7 Marks)

Question 2:
Meena Limited plans to manufacture and sell 400 units of a domestic appliance per month at a price of Rs. 600 each. The ratio of costs to selling price are as follows:

	% of Selling Price
Raw Materials	30%
Packing Materials	10%
Direct Labour	15%
Direct Expense	5%

Fixed overheads are estimated at Rs. 4,32,000 per annum.
The following norms are maintained for inventory management:

Raw Materials	30 days
Packing Materials	15 days
Finished Goods	200 units
Work-in-Progress	7 days

Additional Informations:
(1) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.
(2) Creditors for all kind materials allow 21 working days credit for payment.
(3) Lag in payment of overheads and expenses is 15 working days.
(4) Contingency reserve requirements to be 12% of net working capital.
(5) Working days in a year are taken as 300 for budgeting purpose.
(6) Packing material is incurred on completion of goods and part of cost of goods sold.
(7) Material put in beginning and wages and overhead accrue evenly.
Prepare a working capital requirement forecast for the budget year.

(10 Marks)

Question 3:
ABC Limited is considering an investment proposed to install a new machine. The project will cost Rs. 50,000 and will have a life of 5 years and no salvage value. The company's tax rate is 50% and no investment allowance is allowed. The firm uses straight line method of depreciation. The estimated net Income before depreciation and tax from the proposed investment proposal are as follows:

Year	**Net Income before Depreciation & Tax Rs.**
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following:
1. Pay-back period
2. Average rate of return
3. Net Present Value at 10% discount rate.
4. Profitability index at 10% discount rate.

Year	**PV Factors at 10%**	**Year**	**PV Factors at 10%**
1	0.909	3	0.751
2	0.826	4	0.683
		5	0.621

(10 Marks)

Question 4:
Sundaram Ltd. discounts its cash flows at 16% and is in the tax bracket of 35%. For the acquisition of a machinery worth Rs. 10,00,000, it has two options – either to acquire the asset by taking a bank loan @ 15% p.a. repayable in 5 yearly installments of Rs. 2,00,000 each plus interest or to lease the asset at yearly rentals of Rs. 3,34,000 for five

(5) years. In both the cases, the installment is payable at the end of the year. Depreciation is to be applied at the rate of 15% using 'written down value' (WDV) method. You are required to advise which of the financing options is to be exercised and why. Ignore Capital Gain Tax.

Year	1	2	3	4	5
P.V factor @16%	0.862	0.743	0.641	0.552	0.476

(10 Marks)

Question 5:
A firm has sales of Rs. 75,00,000 variable cost is 56% and fixed cost is Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

(i) What is the firm's ROI?
(ii) Does it have favourable finance?
(iii) If the firm belongs to an industry whose capital turnover is 3, does it have a high or low capital turnover?
(iv) What are the operating, financial and combined leverages of the firm?
(v) If the sales is increased by 10% by what percentage EBIT will increase?
(vi) At what level of sales the EBT of the firm will be equal to zero?
(vii) If EBIT increases by 20%, by what percentage EBT will increase?

(10 Marks)

Question 6.
(a) DESCRIBE Bridge Finance.

(3 Marks)

(b) STATE Virtual Banking? DISCUSS its advantages.

(4 Marks)

(c) EXPLAIN Concentration Banking.

(3 Marks)

SECTION - B
Q. No. 7 is compulsory.
Answer any three from the rest.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions top answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.
Working Notes should form part of the respective answer.

Question 7:
(a) Using the information given in the following table calculate,
(i) Value added by firm A and firm B
(ii) Gross Domestic Product at Market Price
(iii) Net Domestic Product at Factor Cost.

	Particulars	**Rs. crore**
(i)	Sales by firm B to general government	300
(ii)	Sales by firm A	1500
(iii)	Sales by firm B to households	1350
(iv)	Change in stock of firm A	200
(v)	Closing stock of firm B	140
(vi)	Opening stock of firm B	130
(vii)	Purchases by firm A	270
(viii)	Indirect taxes paid by both the firms	375
(ix)	Consumption of fixed capital	720
(x)	Sales by firm A to B	300

(5 Marks)

(b) Classify each of the following goods based on their characteristics. Mention the rationale.
(i) Open-access Wi-Fi networks
(ii) Roads with toll booths
(iii) Parks

(3 Marks)

(c) Describe the term 'Tragedy of commons'.

(2 Marks)

Question 8:

(a) Explain the concept of adverse selection. What are the possible consequences of adverse selection?

(3 Marks)

(b) How is exchange rate determined under floating exchange rate regime?

(2 Marks)

(c) What is meant by trade distortion?

(3 Marks)

(d) Define information failure

(2 Marks)

Question 9:

(a) Define Reserve Money? Compute the Reserve Money from the following data Published by RBI.

Components	(In billions of Rs.) As on 7th July 2018
Currency in circulation	15428.40
Bankers Deposits with RBI	4596.18
Other Deposits with RBI	183.30

(3 Marks)

(b) What role does Market Stabilization Scheme (MSS) play in our economy?

(3 Marks)

(c) Why do you consider national defence as a public good?

(2 Marks)

(d) Explain the function of money as a unit of account?

(2 Marks)

Question 10:

(a) What is local content requirement? How will it affect trade?

(3 Marks)

(b) Define 'dumping'? What is meant by an 'Anti-dumping' measure?

(3 Marks)

(c) Explain the term quasi-public goods.

(2 Marks)

(d) Explain how speculative motive for holding cash is related to market interest rate.

(2 Marks)

Question 11:

(a) What are the major functions of the WTO? What do you understand by the term 'Most-favored-nation' (MFN)?

(3 Marks)

(b) Define foreign direct investment (FDI). Mention two arguments made in favour of FDI to developing economies like India?

(3 Marks)

(c) Analyse what should be the tax policy during recession and depression?

(2 Marks)

(d) Examine what would be the effect on money multiplier if banks hold excess reserves?

(2 Marks)

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