(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)

DATE: 25.09.2019 **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 particulars you are required to prepare the Balance Sheet of a company:

Fixed assets	(after writing off 30%)	Rs. 10,50,000
Fixed assets turnover ratio	(on cost of sales)	2
Finished goods turnover ratio	(on cost of sales)	6
GP rate on sales		25%
Net profit (before interest) to sales		8%
Fixed charges cover (debenture interest 7%)		8
Debt collection period		1.5 months
Material consumed to sales		30%
Stock of raw materials (in terms of months consumption)		3
Current ratio		2.4
Quick ratio		1.0
Reserve to capital ratio		0.21

(8 Marks)

(b) Sharp Age Ltd., belongs to a risk class of the appropriate capitalisation rate is 10%. It currently has 2,00,000 shares selling at Rs. 100 each. The firm is contemplating declaring of a dividend of Rs. 6 per share at the end of current fiscal year which has just began. Answer the following question based on Modi-Gliani and Miller Model and assumptions of no corporate taxes.

(i) What will be the market price of a share at the end of the year if a dividend is not declared?

(ii) What will be market price if dividend is declared?

(iii) Assuming that the firm pays dividend, has net income of Rs. 20 lakhs and makes new investment of Rs. 40 lakhs during the period, how many new shares must be issued is dividend paid or not?

(6 Marks)

(c) PQR Ltd. has the following capital structure on October 31, 2018:

Sources of capital	**Rs.**
Equity Share Capital (2,00,000 Shares of Rs. 10 each)	20,00,000
Reserve & Surplus	20,00,000
12% Preference Shares	10,00,000
9% Debentures	30,00,000
	80,00,000

The market price of equity share is Rs. 30. It is expected that the company will pay next year a dividend of Rs. 3 per share, which will grow at 7% forever. Assume 40% income tax rate.

You are required to compute weighted average cost of capital using market value weights.

(6 Marks)

Question 2:

The management of Alfa Industries was called for a statement showing the working capital needs to finance a level of activity of 1,56,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below:

	Cost per unit (Rs.)
Raw Material	40
Direct Labour	20
Overheads (including depreciation of Rs. 5 per unit)	20
Total Cost	80
Profit	20
Selling Price	100

Additional Informations:

(1) Minimum desired cash balance is Rs. 50,000.

(2) Raw material are held in stock, on an average, for four weeks.

(3) Work-in –progress (assume 50% completion stage) will approximate to a weeks production.

(4) Finished goods remain in warehouse, on an average for two weeks.

(5) Suppliers of materials extend three weeks credit and debtors are provided four weeks credit; cash sales are 25% of total sales.

(6) There is a time-lag in payment of wages of two weeks and a week in the case of overheads.

From the above facts, you are required to:

(a) Prepare a statement showing working capital needs on cash cost basis; and

(b) Determine the maximum working capital finance available under the first two methods suggested by the Tandon Committee.

(10 Marks)

Question 3:

The following details of RST Limited for the year ended 31st March, 2015 are given below:

Operating leverage	1.4
Combined leverage	2.8
Fixed Cost (Excluding interest)	Rs. 2.04 lakhs
Sales	Rs. 30.00 lakhs
12% Debentures of Rs. 100 each	Rs. 21.25 lakhs
Equity Share Capital of Rs. 10 each	Rs. 17.00 lakhs
Income tax rate	30 per cent

Required:

(i) Calculate Financial leverage

(ii) Calculate P/V ratio and Earning per Share(EPS)

(iii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets turnover?

(iv) At what level of sales the Earning before Tax(EBT) of the company will be equal to zero?

(10 Marks)

Question 4:

A Ltd. is considering the purchase of a machine which will perform some operations which are at present performed by workers. Machines X and Y are alternative models. The following details are available:

	Machine X (Rs.)	**Machine Y (Rs.)**
Cost of machine	1,50,000	2,40,000
Estimated life of machine	5 years	6 years
Estimated cost of maintenance p.a.	7,000	11,000
Estimated cost of indirect material, p.a.	6,000	8,000
Estimated saving in Wastage p.a.	10,000	15,000
Estimated cost of supervision p.a.	12,000	16,000
Estimated saving in wages p.a.	90,000	1,20,000

Depreciation will be charged on straight line basis. The tax rate is 30%. Evaluate the alternatives according to:

(i) Average rate of return method

(ii) Present value index method assuming cost of capital being 10%, and

(iii) NPV @10%

(The present value of Rs. 1.00 @ 10% p.a. for 5 years is 3.79 and for 6 years is 4.355)

(10 Marks)

Question 5:

Shivam Ltd. is considering two mutually exclusive projects A and B. Project A costs Rs. 36,000 and project B Rs. 30,000. You have been given below the net present value and probability distribution for each project.

Project A		**Project B**	
NPV estimates (Rs.)	**Probability**	**NPV estimates (Rs.)**	**Probability**
15,000	0.2	15,000	0.1
12,000	0.3	12,000	0.4
6,000	0.3	6,000	0.4
3,000	0.2	3,000	0.1

(i) Compute the expected net present values of projects A and B.

(ii) Compute the risk attached to each project i.e. standard deviation of each project.

(iii) Compute the profitability index of each project.

(iv) Which project do you recommend? State with reasons.

(10 Marks)

Question 6:

(a) Explain in brief following Financial Instruments:

- (i) Euro Bonds
- (ii) Floating Rate Notes
- (iii) Euro Commercial paper
- (iv) Fully Hedged Bond

(1.5 Marks Each = 6 Marks)

(b) Discuss the Advantages of Leasing.

(2 Marks)

(c) Write two main objectives of Financial Management.

(2 Marks)

OR

Write two main reasons for considering risk in Capital Budgeting decisions.

(2 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) Calculate Gross National Disposable income from the following data (in Rs. Crores)

NDP at factor cost	6000
Net factor income to abroad	- 300
Consumption of fixed capital	400
Current transfers from government	200
Net current transfers from rest of the world	500
Indirect taxes	700
Subsidies	600

(5 Marks)

(b) Mention the core principle of comparative advantage.

(3 Marks)

(c) What is meant by trade distortion?

(2 Marks)

Question 8:

(a) Identify the market outcomes for each of the following situations.

(i) A few youngsters play loud music at night. Neighbours may not be able to sleep.
(ii) Ram buys a large SUV which is very heavy.
(iii) X smokes in a public place.
(iv) Rural school students are given vaccination against measles.
(v) Traffic congestion making travel very uncomfortable.

(5 Marks)

(b) Describe the treatment of transactions demand for money as per Baumol and Tobin's model.

(3 Marks)

(c) Write a note on Cash Reserve Ratio (CRR). Explain the operation of CRR.
(2 Marks)

Question 9:
(a) What is local content requirement? How will it affect trade?
(3 Marks)

(b) Differentiate between 'taxes on production' and 'product taxes'
(2 Marks)

(c) How do imports affects investment multiplier?
(2 Marks)

(d) Distinguish between private cost and social cost.
(3 Marks)

Question 10:
(a) How can the government influence the resource allocation in an economy?
(3 Marks)

(b) (i) Is cable television an example of impure public good? Verify your answer.
(3 Marks)

(ii) Is production of steel a demerit good? Give reason.
(2 Marks)

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

Question 11:
(a) How do foreign direct investments affect human capital in recipient countries?
(3 Marks)

(b) Define consumption function? Examine what would happen if aggregate expenditures were to exceed the economy's production capacity?
(2 Marks)

(c) Define the concept of market failure. Describe the different sources of market failure.
(3 Marks)

(d) Describe the different determinants of money supply in a country.
(2 Marks)

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