(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 12.06.2020 MAXIMUM MARKS: 100 TIMING: 3¼ Hours

FINANCIAL MANAGEMENT

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) The following information is available in respect of Sai trading company:

(i) On an average, debtors are collected after 45 days; inventories have an average holding period of 75 days and creditor's payment period on an average is 30 days.
(ii) The firm spends a total of Rs. 120 lakhs annually at a constant rate.
(iii) It can earn 10 per cent on investments.

From the above information, you are required to calculate:
(a) The cash cycle and cash turnover,
(b) Minimum amounts of cash to be maintained to meet payments as they become due,
(c) Savings by reducing the average inventory holding period by 30 days.

(5 Marks)

(b) The following information relates to Navya Ltd:

Earnings of the company	Rs. 20,00,000
Dividend pay-out ratio	60%
No. of Shares outstanding	4,00,000
Rate of return on investment	15%
Equity capitalization rate	12%

Required:
(i) DETERMINE what would be the market value per share as per Walter's model.
(ii) COMPUTE optimum dividend pay-out ratio according to Walter's model and the market value of company's share at that pay-out ratio.

(5 Marks)

(c) The capital structure of Beta Limited is as follows:

Equity share capital of Rs. 10 each	8,00,000
9% preference share capital of Rs. 10 each	3,00,000
	11,00,000

Additional information: Profit (after tax at 35 per cent), Rs. 2,70,000; Depreciation, Rs. 60,000; Equity dividend paid, 20 per cent; Market price of equity shares, Rs. 40. You are required to compute the following, showing the necessary workings:
(i) Dividend yield on the equity shares
(ii) Cover for the preference and equity dividends
(iii) Earnings per share
(iv) Price-earnings ratio.

(5 Marks)

(d) Z Limited is considering the installation of a new project costing Rs. 80,00,000. Expected annual sales revenue from the project is Rs. 90,00,000 and its variable costs are 60 percent of sales. Expected annual fixed cost other than interest is Rs. 10,00,000. Corporate tax rate is 30 percent. The company wants to arrange the funds through issuing 4,00,000 equity shares of Rs. 10 each and 12 percent debentures of Rs. 40,00,000.

You are required to:

(i) Calculate the operating, financial and combined leverages and Earnings per Share (EPS).

(ii) Determine the likely level of EBIT, if EPS is Rs. 4, or Zero.

(5 Marks)

Question 2:

PQ Ltd., a company newly commencing business in 2017 has the following projected Profit and Loss Account:

	(Rs.)	**(Rs.)**
Sales		2,10,000
Cost of goods sold		1,53,000
Gross Profit		57,000
Administrative Expenses	14,000	
Selling Expenses	13,000	27,000
Profit before tax		30,000
Provision for taxation		10,000
Profit after tax		20,000
The cost of goods sold has been arrived at as under:		
Materials used	84,000	
Wages and manufacturing Expenses	62,500	
Depreciation	23,500	
	1,70,000	
Less: Stock of Finished goods (10% of goods produced not yet sold)	17,000	
	1,53,000	

The figure given above relate only to finished goods and not to work-in-progress. Goods equal to 15% of the year's production (in terms of physical units) will be in process on the average requiring full materials but only 40% of the other expenses. The company believes in keeping materials equal to two months' consumption in stock.

All expenses will be paid one month in advance. Suppliers of materials will extend 1-1/2 months credit. Sales will be 20% for cash and the rest at two months' credit. 70% of the Income tax will be paid in advance in quarterly instalments. The company wishes to keep Rs. 8,000 in cash. 10% has to be added to the estimated figure for unforeseen contingencies.

Prepare an estimate of working capital.

Note: All workings should form part of the answer.

(10 Marks)

Question 3:

JKL Ltd. has the following book-value capital structure as on March 31, 20X5.

	(Rs.)
Equity share capital (2,00,000 shares)	40,00,000
11.5% Preference shares	10,00,000
10% Debentures	30,00,000

	80,00,000

The equity shares of the company are sold for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per equity share, which is expected to grow by 5% p.a. forever. Assume a 35% corporate tax rate.

Required:

(i) Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.

(ii) Compute the new WACC, if the company raises an additional Rs. 20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs. 2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs. 16 per share.

(10 Marks)

Question 4:

XYZ Ltd. is planning to introduce a new product with a project life of 8 years. The project is to be set up in Special Economic Zone (SEZ), qualifies for one time (at starting) tax free subsidy from the State Government of Rs. 25,00,000 on capital investment. Initial equipment cost will be Rs. 1.75 crores. Additional equipment costing Rs. 12,50,000 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. 1,25,000. A working capital of Rs. 20,00,000 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. 120 per unit is expected and variable expenses will amount to 60% of sales revenue. Fixed cash operating costs will amount Rs. 18,00,000 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
	.893	.797	.712	.636	.567	.507	.452	.404

(10 Marks)

Question 5:

X Ltd is considering its New Project with the following details

Sr. No.	**Particulars**	**Figures**
1	Initial capital cost	Rs. 400 Cr
2	Annual unit sales	5 Cr
3	Selling price per unit	Rs. 100
4	Variable cost per unit	Rs. 50
5	Fixed costs per year	Rs. 50 Cr
6	Discount Rate	6%

Required:

1. CALCULATE the NPV of the project.
2. COMPUTE the impact on the project's NPV of a 2.5 per cent adverse variance in each variable. Which variable is having maximum effect .Consider Life of the project as 3 years.

(10 Marks)

Question 6:

(a) Difference between factoring and bill discounting?

(4 Marks)

(b) Explain Global depository Bonds (GDRs).

(3 Marks)

(c) Explain in brief the features of Commercial Paper.

(3 Marks)

ECONOMICS FOR FINANCE

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 equestions first 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) You are given the following data on an economy in millions:

Consumer Expenditure (inclusive of indirect taxes)	110 m
Investment	20 m
Government Expenditure (inclusive of transfer payments)	70 m
Exports	20 m
Imports	50 m
Net Property Income from abroad	10 m
Transfer payments	20 m
Indirect taxes	30 m
Population	0.5 m

(i) Calculate the Gross Domestic Product at market prices.

(ii) Calculate the Gross National Income at market prices.

(iii) Calculate the Gross Domestic Product at factor cost.

(iv) Calculate the per capita Gross National Income at factor cost.

(5 Marks)

(b) Define National Income. Draw the basis of distinction between GDP at current and constant prices.

(3 Marks)

(c) Explain the term quasi-public goods.

(2 Marks)

Question 8:

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

(5 Marks)

(b) Write a note on Cash Reserve Ratio (CRR). Explain the operation of CRR.

(3 Marks)

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

(2 Marks)

Question 9:

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

(5 Marks)

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

(3 Marks)

(c) 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.

(2 Marks)

Question 10:

(a) Examine what types of fiscal policy measures are useful for redistribution of income in an economy?

(5 Marks)

(b) Explain the nature of changes in exchange rates and their impact on real economy?

(3 Marks)

(c) Describe the term 'Tragedy of Commons'

(2 Marks)

Question 11:

(a) Define the concept of market failure. Describe the different sources of market failure.

(5 Marks)

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

(3 Marks)

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

(2 Marks)

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