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

DATE: 07.07.2020 **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) Following figures are available in the books Tirupati Ltd.

Fixed assets turnover ratio	8 times (based on cost of goods sold)
Capital turnover ratio	2 times (based on cost of goods sold)
Inventory Turnover	8 times
Receivable turnover	4 times
Payable turnover	6 times
G P Ratio	25%

Gross profit during the year amounts to Rs. 8,00,000. There is no long-term loan or overdraft. Reserve and surplus amount to Rs. 2,00,000. Ending inventory of the year is Rs. 20,000 above the beginning inventory.

Required:

CALCULATE various assets and liabilities and PREPARE a Balance sheet of Tirupati Ltd.

(7 Marks)

(b) Stopgo Ltd, an all equity financed company, is considering the repurchase of Rs. 200 lakhs equity and to replace it with 15% debentures of the same amount. Current market Value of the company is Rs. 1140 lakhs and it's cost of capital is 20%. It’s Earnings before Interest and Taxes (EBIT) are expected to remain constant in future. It's entire earnings are distributed as dividend. Applicable tax rate is 30 per cent.

You are required to calculate the impact on the following on account of the change in the capital structure as per Modigliani and Miller (MM) Hypothesis:

(i) The market value of the company
(ii) It's cost of capital, and
(iii) It’s cost of equity

(7 Marks)

(c) Y Limited requires Rs. 50,00,000 for a new project. This project is expected to yield earnings before interest and taxes of Rs. 10,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per' share. It has two alternatives to finance the project - by raising debt Rs. 5,00,000 or Rs. 20,00,000 and the balance, in each case, by issuing Equity Shares. The company's share is currently selling at Rs. 300, but is expected to decline to Rs. 250 in case the funds are borrowed in excess of Rs. 20,00,000. The funds can be borrowed at the rate of 12 percent upto Rs. 5,00,000 and at 10 percent over Rs. 5,00,000. The tax rate applicable to the company is 25 percent. Which form of financing should the company choose?

(6 marks)

Question 2:

PD Ltd. an existing company, is planning to introduce a new product with projected life of 8 years. Project cost will be Rs. 2,40,00,000. At the end of 8 years no residual value will be realized. Working capital of Rs. 30,00,000 will be needed. The 100% capacity of the project is 2,00,000 units p.a. but the Production and Sales Volume is expected are as under :

Year	Number of Units
1	60,000 units
2.	80,000 units
3-5	1,40,000 units
6-8	1,20,000 units

Other Information:

(i) Selling price per unit Rs. 200

(ii) Variable cost is 40% of sales.

(iii) Fixed cost p.a. Rs. 30,00,000.

(iv) In addition to these advertisement expenditure will have to be incurred as under:

Year	1	2	3-5	6-8
Expenditure (Rs.)	50,00,000	25,00,000	10,00,000	5,00,000

(v) Income Tax is 25%.

(vi) Straight line method of depreciation is permissible for tax purpose.

(vii) Cost of capital is 10%.

(viii) Assume that loss cannot be carried forward.

Present Value Table

Year	1	2	3	4	5	6	7	8
PVF@ 10	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

Advise about the project acceptability.

(10 Marks)

Question 3

CALCULATE Variance and Standard Deviation on the basis of following information:

Possible Event	Project A		Project B	
	Cash Flow (Rs.)	**Probability**	**Cash Flow (Rs.)**	**Probability**
A	80,000	0.10	2,40,000	0.10
B	1,00,000	0.20	2,00,000	0.15
C	1,20,000	0.40	1,60,000	0.50
D	1,40,000	0.20	1,20,000	0.15
E	1,60,000	0.10	80,000	0.10

(10 Marks)

Question 4.

(a) The following figures are collected from the annual report of XYZ Ltd.:

	Rs.
Net Profit	RS 30 lakhs
Outstanding 12% preference shares	RS 100 lakhs
No. of equity shares	3 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

CALCULATE price per share using Gordon's Model when dividend pay-out is (i) 25%; (ii) 50% and (iii)100%.

(7 Marks)

(b) A firm maintains a separate account for cash disbursement. Total disbursement are Rs. 10,50,000 per month or Rs. 1,26,00,000 per year. Administrative and transaction cost of transferring cash to disbursement account is Rs.20 per transfer. Marketable securities yield is 8% per annum.
COMPUTE the optimum cash balance according to William J. Baumol model.

(3 Marks)

Question 5:
Following information is forecasted by the Puja Limited for the year ending 31 st March, 20X8:

	Balance as at 1st April, 20X7 (Rs.)	Balance as at 31st March, 20X8 (Rs.)
Raw Material	45,000	65,356
Work-in-progress	35,000	51,300
Finished goods	60,181	70,175
Debtors	1,12,123	1,35,000
Creditors	50,079	70,469
Annual purchases of raw material (all credit)		4,00,000
Annual cost of production		7,50,000
Annual cost of goods sold		9,15,000
Annual operating cost		9,50,000
Annual sales (all credit)		11,00,000

You may take one year as equal to 365 days.
Required:
CALCULATE
(i) Net operating cycle period.
(ii) Number of operating cycles in the year.
(iii) Amount of working capital requirement using operating cycles.

(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) **(i)** How the Government intervenes to ensure stability in price level?

(2 Marks)

(ii) The RBI Published the following data as on 31st March, 2018. You are required to compute M4:

	(Rs. in crores)
Currency with the public	1,12,206.6
Demand Deposits with Banks	1,93,300.4
Net Time Deposits with Banks	2,67,310.2
Other Deposits of RBI	614.8
Post Office Savings Deposits	277.5
Post Office National Savings Certificates (NSCs)	110.5

(3 Marks)

(b) Mention few concerns of the WTO.

(3 Marks)

(c) Write a short note on DOHA ROUND.

(2 Marks)

Question 8:

(a) Write few Impacts of Exchange Rate Fluctuations on Domestic Economy.

(3 Marks)

(b) Explain Real Exchange Rate.

(2 Marks)

(c) Explain Soft Peg & Hard Peg with reference to Exchange Rate Policy.

(3 Marks)

(d) Write a short note on National Treatment Principle.

(2 Marks)

Question 9:

(a) Write a short note on Structure of the WTO.

(3 Marks)

(b) Explain Countervailing Duties.

(2 Marks)

(c) Explain Technical Measures as Trade Barriers.

(3 Marks)

(d) Explain The Mercantilists View of International Trade.

(2 Marks)

Question 10:

(a) What will be the nature of the monetary policy undertaken by RBI in the following?

(i) Increases repo rate by 50 basis points
(ii) Reduces the cash reserve ratio
(iii) Increases the interest rate chargeable by commercial banks
(iv) Sells securities in the open market
(v) Changes in the SLR

(5 Marks)

(b) Mention the Monetary Policy Framework Agreement.

(3 Marks)

(c) Explain the the exchange rate channel.

(2 Marks)

Question 11:

(a) Explain the Speculative Demand for Money.

(3 Marks)

(b) What should be the Fiscal Policy for Long-Run Economic Growth.

(2 Marks)

(c) Explain Automatic Stabilizers.

(3 Marks)

(d) Explain Pigouvian Taxes.

(2 Marks)

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