(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 11.10.2021 **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) MN Limited gives you the following information related for the year ending 31st March, 2016:

(1)	Current Ratio	2.5 : 1
(2)	Debt-Equity Ratio	1 : 1.5
(3)	Return on Total Assets (After Tax)	15%
(4)	Total Assets Turnover Ratio	2
(5)	Gross Profit Ratio	20%
(6)	Stock Turnover Ratio	7
(7)	Current Market Price per Equity Share	Rs. 16
(8)	Net Working Capital	Rs. 4,50,000
(9)	Fixed Assets	Rs. 10,00,000
(10)	60,000 Equity Shares of	Rs. 10 each
(11)	20,000, 9% Preference Shares of	Rs. 10 each
(12)	Opening Stock	Rs. 3,80,000*

You are required to calculate:

(i) Quick Ratio
(ii) Fixed Assets Turnover Ratio
(iii) Proprietary Ratio
(iv) Earnings per Share
(v) Price-Earning Ratio.

(8 Marks)

(b) The Capital structure of RST Ltd. is as follows:

	(Rs.)
Equity Share of Rs. 10 each	8,00,000
10% Preference Share of Rs. 100 each	5,00,000
12% Debentures of Rs. 100 each	7,00,000
	20,00,000

Additional Information:

- Profit after tax (Tax Rate 30%) are Rs. 2,80,000
- Operating Expenses (including Depreciation Rs. 96,800) are 1.5 times of EBIT
- Equity Dividend paid is 15%
- Market price of Equity Share is Rs. 23 Calculate:
  (i) Operating and Financial Leverage
  (ii) Cover for preference and equity dividend
  (iii) The Earning Yield Ratio and Price Earning Ratio
  (iv) The Net Fund Flow

(6 Marks)

(c) 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

(6 Marks)

Question 2

ABC Limited has the following book value capital structure:

Equity Share Capital (150 million shares, Rs.10 par)	Rs. 1,500 million
Reserves and Surplus	Rs. 2,250 million
10.5% Preference Share Capital (1 million shares, Rs.100 par)	Rs. 100 million
9.5% Debentures (1.5 million debentures, Rs.1,000 par)	Rs. 1,500 million
8.5% Term Loans from Financial Institutions	Rs. 500 million

The debentures of ABC Limited are redeemable after three years and are quoting at Rs. 981.05 per debenture. The applicable income tax rate for the company is 35%.

The current market price per equity share is Rs. 60. The prevailing default-risk free interest rate on 10- year GOI Treasury Bonds is 5.5%. The average market risk premium is 8%. The beta of the company is 1.1875.

The preferred stock of the company is redeemable after 5 years is currently selling at Rs. 98.15 per preference share.

Required:

(i) Calculate weighted average cost of capital of the company using market value weights.

(ii) Define the marginal cost of capital schedule for the firm if it raises Rs. 750 million for a new project. The firm plans to have a debt of 20% of the newly raised capital. The beta of new project is 1.4375. The debt capital will be raised through term loans, it will carry interest rate of 9.5% for the first Rs.100 million and 10% for the next Rs. 50 million.

(10 Marks)

Question 3

MNP Limited is thinking of replacing its existing machine by a new machine which would cost Rs. 60 lakhs. The company's current production is Rs. 80,000 units, and is expected to increase to 1,00,000 units, if the new machine is bought. The selling price of the product would remain unchanged at Rs. 200 per unit. The following is the cost of producing one unit of product using both the existing and new machine:

			Unit Cost (Rs.)
	Existing Machine (80,000 units)	**New Machine (1,00,000 units)**	**Difference**
Materials	75.0	63.75	(11.25)
Wages & Salaries	51.25	37.50	(13.75)
Supervision	20.0	25.0	5.0
Repairs and Maintenance	11.25	7.50	(3.75)
Power and Fuel	15.50	14.25	(1.25)
Depreciation	0.25	5.0	4.75
Allocated Corporate Overheads	10.0	12.50	2.50
	183.25	165.50	(17.75)

The existing machine has an accounting book value of Rs. 1,00,000, and it has been fully depreciated for tax purpose. It is estimated that machine will be useful for 5 years. The supplier of the new machine has offered to accept the old machine for Rs. 2,50,000. However, the market price of old machine today is Rs. 1,50,000 and it is expected to be Rs. 35,000 after 5 years. The new machine has a life of 5 years and a salvage value of Rs. 2,50,000 at the end of its economic life. Assume corporate Income tax rate at 40%, and depreciation is charged on straight line basis for Income-tax purposes. Further assume that book profit is treated as ordinary income for tax purpose. The opportunity cost of capital of the Company is 15%.

Required:

(i) Estimate net present value of the replacement decision.

(ii) Should Company go ahead with the replacement decision? Suggest.

Year (t)	1	2	3	4	5
$PVIF_{0.15,t}$	0.8696	0.7561	0.6575	0.5718	0.4972
$PVIF_{0.20,t}$	0.8333	0.6944	0.5787	0.4823	0.4019
$PVIF_{0.25,t}$	0.80	0.64	0.512	0.4096	0.3277
$PVIF_{0.30,t}$	0.7692	0.5917	0.4552	0.3501	0.2693
$PVIF_{0.35,t}$	0.7407	0.5487	0.4064	0.3011	0.2230

(10 Marks)

Question 4:

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

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%.

(5 Marks)

(b) A Ltd. is in the manufacturing business and it acquires raw material from X Ltd. on a regular basis. As per the terms of agreement the payment must be made within 40 days of purchase. However, A Ltd. has a choice of paying Rs. 98.50 per Rs. 100 it owes to X Ltd. on or before 10th day of purchase.

Required:

EXAMINE whether A Ltd. should accept the offer of discount assuming average billing of A Ltd. with X Ltd. is Rs. 10,00,000 and an alternative investment yield a return of 15% and company pays the invoice.

(5 Marks)

Question 5

MN Ltd. is commencing a new project for manufacture of electric toys. The following cost information has been ascertained for annual production of 60,000 units at full capacity:

Amount per unit		
Raw materials		20
Direct labour		15
Manufacturing overheads:		
Variable	Rs. 15	
Fixed	10	25

Selling and Distribution overheads:		
Variable	Rs. 3	
Fixed	1	4
Total cost		64
Profit		16
Selling price		80

In the first year of operations expected production and sales are 40,000 units and 35,000 units respectively. To assess the need of working capital, the following additional information is available:

(i) Stock of Raw materials consumption — 3 months
(ii) Credit allowable for debtors — 1½ months.
(iii) Credit allowable by creditors — 4 months.
(iv) Lag in payment of wages — 1 month.
(v) Lag in payment of overheads — ½ month.
(vi) Cash in hand and Bank is expected to be — Rs. 60,000.
(vii) Provision for contingencies is required @ 10% of working capital requirement including that provision.

You are required to prepare a projected statement of working capital requirement for the first year of operations. Debtors are taken at cost.

(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

(4 Marks)

(b) Discuss the Advantages of Leasing.

(3 Marks)

(c) Write two main objectives of Financial Management.

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

(3 Marks)

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

(3 Marks)

(c) Why GATT lost its relevance by 1980?

(2 Marks)

(d) Why do pensions and other security payments get excluded while calculating National Income?

(2 Marks)

Question 8:

(a) Compute NNP at factor cost or national income from the following data using income method:

	(Rs. in crores)
Compensation of employees	3,000
Mixed income of self-employed	1,050
Indirect taxes	480
Subsidies	630
Depreciation	428
Rent	1,020
Interest	2,010
Profit	980
Net factor income from abroad	370

(3 Marks)

(b) Compute credit multiplier if the Requited Reserve Ratio is 10% and 12.5% for every Rs. 1,00,000 deposited in the banking system. What will be the total credit money created by the banking system in each case?

(2 Marks)

(c) Explain the neo-classical approach to demand for money.

(3 Marks)

(d) What is 'Recessionary Gap'?

(2 Marks)

Question 9:

(a) Explain the circular flow of income in an economy.

(3 Marks)

(b) How does the WTO agreement ensure market access?

(2 Marks)

(c) How does a discretionary fiscal policy help in correcting instabilities in the economy?

(3 Marks)

(d) Explain 'Reverse Repo Rate'.

(2 Marks)

Question 10:

(a) Many apprehensions have been raised in respect of the WTO and its ability to maintain and extend a system of liberal world trade. Comment.

(3 Marks)

(b) Even if one nation is less efficient than the other nation in the production of all commodities, there is still scope for mutually beneficial trade. Explain in detail.

(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)

(d) Explain the term quasi-public goods.

(2 Marks)

Question 11:

(a) Compute the amount of subsidies from the following data:

GDP at market price (Rs. in crores)	7,79,567
Indirect Taxes (Rs. in crores)	4,54,367
GDP at factor cost (Rs. in crores)	3,60,815

(3 Marks)

(b) What do you mean by 'Global Public Goods'? Explain in brief.

(2 Marks)

(c) Describe the problems in administering an efficient pollution tax.

(3 Marks)

(d) Explain the open market operations conducted by RBI.

(2 Marks)

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