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

DATE: 17.11.2021 **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) The assets of SONA Ltd. consist of fixed assets and current assets, while its current liabilities comprise bank credit in the ratio of 2 : 1. You are required to prepare the Balance Sheet of the company as on 31st March 2016 with the help of following information:

Share Capital	Rs. 5,75,000
Working Capital (CA-CL)	Rs. 1,50,000
Gross Margin	25%
Inventory Turnover	5 times
Average Collection Period	1.5 months
Current Ratio	1.5 : 1
Quick Ratio	0.8 : 1
Reserves & Surplus to Bank & Cash	4 times

Assume 360 days in a year

(7 Marks)

(b) 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	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?

(6 Marks)

(c) The following data relate to two companies belonging to the same risk class :

Particulars	A Ltd.	B Ltd.
Expected Net Operating Income	Rs. 18,00,000	Rs. 18,00,000
12% Debt	Rs. 54,00,000	-
Equity Capitalization Rate	-	18

Required:

(a) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming no taxes as per M.M. Approach.

(b) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming 40% taxes as per M.M. Approach.

(7 Marks)

Question 2:

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 financial leverage?

(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 3:

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 4:

Day Ltd., a newly formed company has applied to the Private Bank for the first time for financing it's Working Capital Requirements. The following informations are available about the projections for the current year:

Estimated Level of Activity	Completed Units of Production 31200 plus unit of work in progress 12000
Raw Material Cost	Rs. 40 per unit
Direct Wages Cost	Rs. 15 per unit
Overhead	Rs. 40 per unit (inclusive of Depreciation Rs.10 per unit)
Selling Price	Rs. 130 per unit
Raw Material in Stock	Average 30 days consumption
Work in Progress Stock	Material 100% and Conversion Cost 50%
Finished Goods Stock	24000 Units
Credit Allowed by the supplier	30 days
Credit Allowed to Purchasers	60 days
Direct Wages (Lag in payment)	15 days
Expected Cash Balance	Rs. 2,00,000

Assume that production is carried on evenly throughout the year (360 days) and wages and overheads accrue similarly. All sales are on the credit basis. You are required to calculate the Net Working Capital Requirement on Cash Cost Basis.

(10 Marks)

Question 5:

A company is presently having credit sales of Rs. 12 lakh. The existing credit terms are 1/10, net 45 days and average collection period is 30 days. The current bad debts loss is 1.5%. In order to accelerate the collection process further as also to increase sales, the company is contemplating liberalization of its existing credit terms to 2/10, net 45 days. It is expected that sales are likely to increase by 1/3 of existing sales, bad debts increase to 2% of sales and average collection period to decline to 20 days. The contribution to sales ratio of the company is 22% and opportunity cost of investment in receivables is 15 percent (pre-tax). 50 per cent and 80 percent of customers in terms of sales revenue are expected to avail cash discount under existing and liberalization scheme respectively. The tax rate is 30%.

Should the company change its credit terms? (Assume 360 days in a year).

(10 Marks)

Question 6:

(a) DISCUSS Agency Problem and Agency Cost.

(3 Marks)

(b) EXPLAIN in brief the features of Commercial Papers.

(4 Marks)

(c) EXPLAIN Billing float and Mail float with reference to management of cash.

(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) Calculate the Marginal Propensity to Consume (MPC) and Marginal Propensity toSave (MPS) from the following data:

Income (Y)	Consumption (C)	Level
Rs. 8,000	Rs. 6,000	Initial level
Rs. 12,000	Rs. 9,000	Changed level

(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) Explain the leakages and injections in the circular flow of Income.

(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) What would be the impact of each of the following on credit multiplier and money supply?

(i) If Commercial Banks keep 100 percent reserves.
(ii) If Commercial Banks do not keep reserves.
(iii) If Commercial Banks keep excess reserves.

(3 Marks)

(c) List the point of difference between fixed exchange rate and floating exchangerate.

(2 Marks)

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