(GI-7, VI-VDI-SI-3)

DATE: 26.04.2022 **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 accounting information and financial ratios of M Limited relate to the year ended 31st March, 2016 :

Inventory Turnover Ratio	6 Times
Creditors Turnover Ratio	10 Times
Debtors Turnover Ratio	8 Times
Current Ratio	2.4
Gross Profit Ratio	25%

Total sales Rs. 30,00,000; cash sales 25% of credit sales; cash purchases Rs. 2,30,000; working capital Rs. 2,80,000; closing inventory is Rs. 80,000 more than opening inventory.

You are required to calculate:

(i) Average Inventory
(ii) Purchases
(iii) Average Debtors
(iv) Average Creditors
(v) Average Payment Period
(vi) Average Collection Period
(vii) Current Assets
(viii) Current Liabilities.

(5 Marks)

(b) ABC Ltd. wishes to raise additional finance of Rs. 20 lakhs for meeting its investments plan. The company has Rs. 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:

- Debt equity ratio 25 : 75.
- Cost of debt at the rate of 10% (before tax) upto Rs. 2,00,000 and 13% (before tax) beyond that.
- Earnings per share Rs. 12.
- Dividend payout 50% of earnings.
- Expected growth rate in dividend 10%.
- Current market price per share, Rs. 60.
- Company's tax rate is 30% and shareholder's personal tax rate is 20%.

Required:

(i) Calculate the post tax average cost of additional debt.
(ii) Calculate the cost of retained earnings and cost of equity.
(iii) Calculate the overall weighted average (after tax) cost of additional finance.

(5 Marks)

(c) A Company had the following Balance Sheet as on March 31, 2006:

Liabilities and Equity	**Rs. (In crores)**	**Assets**	**Rs. (in crores)**
Equity Share Capital		Fixed Assets (Net)	25
(one crore shares of Rs. 10 each)	10		
Reserves and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		
	40		40

The additional information given is as under:

Fixed Costs per annum (excluding interest)	Rs. 8 crores
Variable operating costs ratio	65%
Total Assets turnover ratio	2.5
Income-tax rate	40%

Required:
Calculate the following and comment:
(i) Earnings per share
(ii) Operating Leverage
(iii) Financial Leverage
(iv) Combined Leverage.

(5 Marks)

(d) Door Ltd. is considering an investment of Rs. 4,00,000. This investment is expected to generate substantial cash inflows over the next five years. Unfortunately, the annual cash flows from this investment is uncertain, and the following profitability distribution has been established.

Annual Cash Flow (Rs.)	**Probability**
50,000	0.3
1,00,000	0.3
1,50,000	0.4

At the end of its 5 years life, the investment is expected to have a residual value of Rs. 40,000.
The cost of capital is 5%
(i) Calculate NPV under the three different scenarios.
(ii) Calculate Expected Net Present Value.
(iii) Advise Door Ltd. on whether the investment is to be undertaken.

Year	1	2	3	4	5
DF @ 5%	0.952	0.907	0.864	0.823	0.784

(5 Marks)

Question 2:

(a) Given below are the data on a capital project 'M'.

Annual cash inflows	Rs. 60,000
Useful life	4 years
Internal rate of return	15%
Profitability index	1.064
Salvage value	0

You are required to calculate for this project M :
(i) Cost of project
(ii) Payback period

(iii) Cost of capital
(iv) Net present value
PV factors at different rates are given below:

Discount factor	**15%**	**14%**	**13%**	**12%**
1 year	0.869	0.877	0.885	0.893
2 year	0.756	0.769	0.783	0.797
3 year	0.658	0.675	0.693	0.712
4 year	0.572	0.592	0.613	0.636

(6 Marks)

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

Net Profit	Rs. 60 lakhs
Outstanding 10% preference shares	Rs. 100 lakhs
No. of equity shares	5 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	14%

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

(4 Marks)

Question 3:
Following information is forecasted by the Puja Limited for the year ending 31st 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 4:
A firm has a current sales of Rs. 2,56,48,750. The firm has unutilised capacity. In order to boost its sales, it is considering the relaxation in its credit policy. The proposed terms of credit will be 60 days credit against the present policy of 45 days. As a result, the bad debts will increase from 1.5% to 2% of sales. The firm's sales are expected to increase by 10%. The variable operating costs are 72% of the sales. The Firm's corporate tax rate is

35%, and it requires an after-tax return of 15% on its investment. Should the firm change its credit period?

(10 Marks)

Question 5:

(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 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) Using the information given in the following table calculate,
(i) Value added by firm A and firm B
(ii) Gross Domestic Product at Market Price
(iii) Net Domestic Product at Factor Cost.

	Particulars	Rs. crore
(i)	Sales by firm B to general government	300
(ii)	Sales by firm A	1500
(iii)	Sales by firm B to households	1350
(iv)	Change in stock of firm A	200
(v)	Closing stock of firm B	140
(vi)	Opening stock of firm B	130
(vii)	Purchases by firm A	270
(viii)	Indirect taxes paid by both the firms	375
(ix)	Consumption of fixed capital	720
(x)	Sales by firm A to B	300

(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 8:

(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)

Question 9:

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

(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 10:

(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 11:

(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)

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