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

DATE: 26.09.2022 **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) 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) 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)

(c) 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)

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:

(i) "Financial Leverage is a double-edged sword" DISCUSS.

(4 Marks)

(ii) EXPLAIN the followings:

(a) Bridge Finance

(b) Floating Rate Bonds

(c) Packing Credit.

(6 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) (i) Discuss the role of government interventions in minimizing the market power.

(2 Marks)

(ii) Calculate Narrow Money(M_1) from the following information:

	(Rs. in Crore)
Currency with public	2,80,000
Demand Deposits with banks	4,00,000
Time Deposits with banks	3,40,000
Other deposits with RBI	5,80,000
Post Office Savings Deposits	90,000

(3 Marks)

(b) Explain the features of Contractionary Fiscal Policy.

(3 Marks)

(c) Describe the types of transactions in the forex-market and also distinguish between forward premium and forward discount.

(2 Marks)

Question 8:

(a) Calculate National Income by Expenditure method and Income method with the help of following data:

Items	**Rs. in Crores**
Compensation of employees	1,200
Net factor income from Abroad	20
Net indirect taxes	120
Profit	800
Private final consumption expenditure	2,000
Net domestic capital formation	770
Consumption of fixed capital	130
Rent	400
Interest	620
Mixed income of self-employed	700
Net export	30
Govt. final consumption expenditure	1100
Operating surplus	1820
Employer's contribution to social security scheme	300

(5 Marks)

(b) Describe direct government actions to solve negative externalities.

(3 Marks)

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

(3 Marks)

(b) Why GATT lost its relevance by 1980?

(2 Marks)

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

(2 Marks)

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

(3 Marks)

Question 11:

(a) Explain the concept of adverse selection. What are the possible consequences of adverse selection?

(3 Marks)

(b) How is exchange rate determined under floating exchange rate regime?

(2 Marks)

(c) What is meant by trade distortion?

(3 Marks)

(d) Define information failure

(2 Marks)

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