(GI-8, FMT)

DATE: 23.03.2023 **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) A company had the following Balance Sheet as on 31st March, 2014:

Liabilities	**(Rs. in Cores)**	**Assets**	**(Rs. in cores)**
Equity Share Capital (50 lakhs shares of Rs. 10 each)	5	Fixed Assets (Net)	12.5
Reserves and Surplus	1	Current Assets	7.5
15% Debentures	10		
Current Liabilities	4		
	20		**20**

The additional information given is as under:

Fixed cost per annum (excluding interest)	Rs. 4 crores
Variable operating cost ratio	65%
Total assets turnover ratio	2.5
Income Tax rate	30%

Required:

Calculate the following and comment:

(i) Earnings Per Share

(ii) Operating Leverage

(iii) Financial Leverage

(iv) Combined Leverage

(5 Marks)

(b) Using the following information, complete this balance sheet:

Long-term debt to net worth	0.5 to 1
Total asset turnover	2.5 x
Average collection period*	18 days
Inventory turnover	9 ×
Gross profit margin	10%
Acid-test ratio	1 to 1

*Assume a 360-day year and all sales on credit.

	Rs.		**Rs.**
Cash	–	Notes and payables	1,00,000
Accounts receivable	–	Long-term debt	—
Inventory	–	Common stock	1,00,000
Plant and equipment	–	Retained earnings	1,00,000
Total assets	–	Total liabilities and equity	—

(5 Marks)

(c) Amita Ltd's operating income is Rs. 5,00,000. The firm's cost of debt is 10% and currently the firm employs Rs. 15,00,000 of debt. The overall cost of capital of the firm is 15%.
You are required to determine:
(i) Total value of the firm.
(ii) Cost of equity.

(5 Marks)

(d) Ganapati Limited is considering three financing plans. The key information is as follows:
(a) Total investment to be raised Rs. 2,00,000
(b) Plans of Financing Proportion:

Plans	Equity	Debt	Preference Shares
A	100%	–	–
B	50%	50%	–
C	50%	–	50%

(c) Cost of debt 8%
Cost of preference shares 8%
(d) Tax Rate 50%
(e) Equity shares of the face value of Rs. 10 each will be issued at a premium of Rs. 10 per share.
(f) Expected EBIT is Rs. 80,000.
You are required to determine for each plan: -
(i) Earnings per share (EPS)
(ii) The financial break-even point.
(iii) Indicate if any of the plans dominate and compute the EBIT range among the plans for indifference.

(5 Marks)

Question 2:
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 Debit	Cost of equity
Upto Rs. 2 lakhs	10%	12%
Above Rs. 2 lakhs to upto to Rs. 5 lakhs	11%	13%
Above Rs. 5 lakhs to upto to Rs. 10 lakhs	12%	14%
Above Rs. 10 lakhs to upto to 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?

(10 Marks)

Question 3:
(a) Determine the risk adjusted net present value of the following projects:

	X	Y	Z
Net cash outlays (Rs.)	2,10,000	1,20,000	1,00,000

Project life	5 years	5 years	5 years
Annual Cash inflow (Rs.)	70,000	42,000	30,000
Coefficient of variation	1.2	0.8	0.4

The Company selects the risk-adjusted rate of discount on the basis of the coefficient of variation:

Coefficient of Variation	Risk-Adjusted Rate of Return	P.V. Factor 1 to 5 years At risk adjusted rate of discount
0.0	10%	3.791
0.4	12%	3.605
0.8	14%	3.433
1.2	16%	3.274
1.6	18%	3.127
2.0	22%	2.864
More than 2.0	25%	2.689

(5 Marks)

(b) The following information is available in respect of Sai trading company:

(i) On an average, debtors are collected after 45 days; inventories have an average holding period of 75 days and creditor's payment period on an average is 30 days.

(ii) The firm spends a total of Rs. 120 lakhs annually at a constant rate.

(iii) It can earn 10 per cent on investments.

From the above information, you are required to calculate:

(a) The cash cycle and cash turnover,

(b) Minimum amounts of cash to be maintained to meet payments as they become due,

(c) Savings by reducing the average inventory holding period by 30 days.

(5 Marks)

Question 4:

A company has to make a choice between two projects namely A and B. The initial capital outlay of two Projects are Rs. 1,35,000 and Rs. 2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity Cost of Capital of the company is 16%. The annual incomes are as under:

Year	Project A (Rs.)	Project B (Rs.)	Discounting factors @ 16%
1	--	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

Required:

CALCULATE for each project:

(i) Discounted payback period

(ii) Profitability index

(iii) Net present value

DECIDE which of these projects should be accepted?

(10 Marks)

Question 5:

Aneja Limited, a newly formed company, has applied to the commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year: Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	Rs. 80 per units
Direct wages	Rs. 30 per units
Overheads (exclusive of depreciation)	Rs. 60 per units
Total Cost	Rs. 170 per units
Selling Price	Rs. 200 per units

Raw materials in stock: Average 4 weeks consumption, work-in-progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing).
Finished goods in stock 8,000 units
Credit allowed by suppliers Average 4 weeks
Credit allowed to debtors/receivables Average 8 weeks
Lag in payment of wages Average 1.5 weeks
Cash at banks (for smooth operation) is expected to be Rs. 25,000.
Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.
You are required to calculate the net working capital required.

(10 Marks)

Question 6:

(a) Discuss the role of a chief financial officer?

(4 Marks)

(b) Difference between factoring and bill discounting?

(4 Marks)

(c) EXPLAIN the term 'Payback reciprocal'.

(2 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)** 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) Calculate the national income using income and expenditure method from the data given below:

Items:		Rs. in crores
(i)	Government purchase of goods and services	7,000
(ii)	Indirect tax	9,000
(iii)	Subsidies	1,800
(iv)	Gross business fixed capital	13,000
(v)	Inventory Investment	3,000
(vi)	Consumption of fixed capital	4,000
(vii)	Personal consumption expenditure	51,000
(viii)	Export of goods and services	4,800
(ix)	Net factor income from aboard	(-) 300
(x)	Imports of goods and services	5,600
(xi)	Mixed income of self employed	28,000
(xii)	Rent, interest and profits	10,000
(xiii)	Compensation of employees	24,000

(5 Marks)

(b) (i) Describe various types of externalities which cause market failure.

(3 Marks)

(ii) Mention any four sectors in which foreign direct investment is prohibited.

(2 Marks)

Question 9:

(a) Explain reasons for Government Provision of Merit Goods.

(3 Marks)

(b) Explain Government Intervention for Correcting Information Failure.

(2 Marks)

(c) Mention few Limitations of Fiscal Policy.

(3 Marks)

(d) Explain Taxes as an Instrument of Fiscal Policy.

(2 Marks)

Question 10:

(a) **(i)** Fisher's equation of exchange is: MV =PT. If velocity (V) = 25, Price (P) 110.5 and volume of transaction (T) = 200 billion.

Calculate:

(1) Total money supply (m)

(2) Effect on M when velocity (V) increases to 75

(3) Velocity (V) when the volume of transactions increases to 325 billion.

(3 Marks)

(ii) Briefly explain the advantages of two key concepts of New Trade theories to countries when importing goods to compete with products from the home country.

(2 Marks)

(b) **(i)** Mention any three key objectives of World Trade Organisation.

(3 Marks)

(ii) Describe the differences between Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

(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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