(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 21.02.2020 **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 details of RST Limited for the year ended 31st March, 2015 are given below:

Operating leverage	1.4
Combined leverage	2.8
Fixed Cost (Excluding interest)	Rs. 2.04 lakhs
Sales	Rs. 30.00 lakhs
12% Debentures of Rs. 100 each	Rs. 21.25 lakhs
Equity Share Capital of Rs. 10 each	Rs. 17.00 lakhs
Income tax rate	30 per cent

Required:

(i) Calculate Financial leverage

(ii) Calculate P/V ratio and Earning per Share (EPS)

(iii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets turnover?

(iv) At what level of sales the Earning before Tax (EBT) of the company will be equal to zero?

(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) A Company earns a profit of Rs. 3,00,000 per annum after meeting its Interest liability of Rs. 1,20,000 on 12% debentures. The Tax rate is 50%. The number of Equity Shares of Rs. 10 each are 80,000 and the retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing Equity Shares at par.
Required:
(i) Compute the Earnings per Share (EPS), if:
- The additional funds were raised as debt
- The additional funds were raised by issue of equity shares.

(ii) Advise the company as to which source of finance is preferable.

(5 Marks)

Question 2:
Shivam Ltd. is considering two mutually exclusive projects A and B. Project A costs Rs. 36,000 and project B Rs. 30,000. You have been given below the net present value probability distribution for each project.

Project A		**Project B**	
NPV estimates (Rs.)	**Probability**	**NPV estimates (Rs.)**	**Probability**
15,000	0.2	15,000	0.1
12,000	0.3	12,000	0.4
6,000	0.3	6,000	0.4
3,000	0.2	3,000	0.1

(i) Compute the expected net present values of projects A and B.
(ii) Compute the risk attached to each project i.e. standard deviation of each probability distribution.
(iii) Compute the profitability index of each project.
(iv) Identify which project do you recommend? State with reasons.

(10 Marks)

Question 3:
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 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:
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 6:

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

(5 Marks)

(b) Differentiate between factoring and bill discounting?

(5 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) Write a short note on Structure of the WTO.

(3 Marks)

(b) Explain Countervailing Duties.

(2 Marks)

(c) Explain Technical Measures as Trade Barriers.

(3 Marks)

(d) Explain The Mercantilists View of International Trade.

(2 Marks)

Question 9:

(a) Explain the Speculative Demand for Money.

(3 Marks)

(b) What should be the Fiscal Policy for Long-Run Economic Growth.

(2 Marks)

(c) Explain Automatic Stabilizers.

(3 Marks)

(d) Explain Pigouvian Taxes.

(2 Marks)

Question 10:

(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)

Question 11:

(a) What are the major functions of the WTO? What do you understand by the term 'Most-favored-nation' (MFN)?

(3 Marks)

(b) Define foreign direct investment (FDI). Mention two arguments made in favour of FDI to developing economies like India?

(3 Marks)

(c) Analyse what should be the tax policy during recession and depression?

(2 Marks)

(d) Examine what would be the effect on money multiplier if banks hold excess reserves?

(2 Marks)

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