

**(GI-1, GI-2+4, GI-3, GI-5+6 & VDI-1, VI-1, SI-1)**

DATE: 03.09.2020

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) Gaurav Ltd. using certainty-equivalent approach in the evaluation of risky proposals. The following information regarding a new project is as follows:

Year	Expected Cash flow	Certainty-equivalent quotient
0	(4,00,000)	1.0
1	3,20,000	0.8
2	2,80,000	0.7
3	2,60,000	0.6
4	2,40,000	0.4
5	1,60,000	0.3

Riskless rate of interest on the government securities is 6 per cent. DETERMINE whether the project should be accepted?

**(5 Marks)**

- (b) Surya Industries Ltd. is marketing all its products through a network of dealers. All sales are on credit and the dealers are given one month time to settle bills. The company is thinking of changing the credit period with a view to increase its overall profits. The marketing department has prepared the following estimates for different periods of credit:

Particulars	Present Policy	Plan I	Plan II	Plan III
Credit period (in months)	1	1.5	2	3
Sales (Rs. Lakhs)	120	130	150	180
Fixed costs (Rs. Lakhs)	30	30	35	40
Bad debts (% of sales)	0.5	0.8	1	2

The company has a contribution/sales ratio of 40% further it requires a pre-tax return on investment at 20%. Evaluate each of the above proposals and recommend the best credit period for the company.

**(5 Marks)**

- (c) The following information is available for PKJ & Co.

	(Rs.)
EBIT	11,20,000
Profit before Tax	3,20,000
Fixed costs	7,00,000

Calculate % change in EPS if the sales are expected to increase by 5%.

**(5 Marks)**

(d) The following information pertains to M/s XY Ltd.

Earnings of the Company	Rs. 5,00,000
Dividend Payout ratio	60%
No. of shares outstanding	1,00,000
Equity capitalization rate	12%
Rate of return on investment	15%

Cost of Capital & Capital Structure

- (i) What would be the market value per share as per Walter’s model?
- (ii) What is the optimum dividend payout ratio according to Walter’s model and the market value of Company’s share at that payout ratio?

**(5 Marks)**

**Question 2:**

The following figures and ratios are related to a company:

(a) Sales for the year (all credit)	Rs. 30,00,000
(b) Gross Profit ratio	25 per cent
(c) Fixed assets turnover (basis on cost of goods sold)	1.5
(d) Stock turnover (basis on cost of goods sold)	6
(e) Liquid ratio	1:1
(f) Current ratio	1.5 : 1
(g) Debtors collection period	2 months
(h) Reserve and surplus to share capital	0.6 : 1
(i) Capital gearing ratio	0.5
(j) Fixed assets to net worth	1.20 : 1

You are required to prepare Balance Sheet of the company on the basis of above details.

**(10 Marks)**

**Question 3:**

A Company provided the following data:

	<b>Cost per unit (Rs.)</b>
Raw materials	52.00
Direct labour	19.50
Overheads	39.00
Total Cost	110.50
Profit	19.50
Selling Price	130.00

The following additional information is available:

- (a) Average raw materials in stock: one month.
- (b) Average materials in process: half-a-month
- (c) Average finished goods in stock: one month
- (d) Credit allowed by suppliers: one month
- (e) Credit allowed to debtors: two months.
- (f) Time lag in payment of wages: one and a half weeks.
- (g) Overheads: one month
- (h) One-fourth of sales are on cash basis.
- (i) Cash balance is expected to be Rs. 1,20,000.

You are required to prepare a statement showing the Working Capital needed to finance a level of activity of 70,000 units of annual output. The production is carried throughout the year on even basis and wages and overheads accrue similarly. (Calculation be made on the basis of 30 days a month and 52 weeks a year).

**(10 Marks)**

**Question 4:**

The present capital structure of a company is as follows:

	<b>Rs. (million)</b>
Equity share (Face value = Rs.10)	240
Reserves	360
11% Preference Shares (Face value = Rs.10)	120
12% Debentures	120
14% Term Loans	360
	1,200

Additionally the following information are available:

Company's equity beta	1.06
Yield on long-term treasury bonds	10%
Stock market risk premium	6%
Current ex-dividend equity share price	Rs. 15
Current ex-dividend preference share price	Rs. 12
Current ex-interest debenture market value	Rs. 102.50 per Rs. 100
Corporate tax rate	40%

The debentures are redeemable after 3 years and interest is paid annually. Ignoring flotation costs, calculate the company' weighted average cost of capital (WACC) on book value and market value basis.

**(10 Marks)**

**Question 5:**

Techtronics Ltd., an existing company, is considering a new project for manufacture of pocket video games involving a capital expenditure of Rs. 600 lakhs and working capital of Rs. 150 lakhs. The capacity of the plant is for an annual production of 12 lakh units and capacity utilisation during the 6-year working life of the project is expected to be as indicated below.

Year	Capacity utilisation (%)
1	33 1/3 %
2	66 2/3 %
3	90 %
4-6	100 %

The average price per unit of the product is expected to be Rs. 200 netting a contribution of 40%. Annual fixed costs, excluding depreciation, are estimated to be Rs. 480 lakhs per annum from the third year onwards; for the first and second year it would be Rs. 240 lakhs and Rs. 360 lakhs respectively. The average rate of depreciation for tax purposes is 33 1/3% on WDV basis. No other tax reliefs are anticipated. The rate of income-tax may be taken at 50%.

At the end of the third year, an additional investment of Rs. 100 lakhs would be required for working capital.

The company, without taking into account the effects of financial leverage, has targeted for a rate of return of 15%.

You are required to indicate whether the proposal is viable, giving your working notes and analysis.

Terminal value for the fixed assets may be taken at 10% and for the current assets at 100%. Calculation may be rounded off to lakhs of rupees. For the purpose of your calculations, the recent amendments to tax laws with regard to balancing charge may be ignored.

**(10 Marks)**

**Question 6:**

(a) STATE the meaning of Payback Reciprocal.

**(4 Marks)**

(b) EXPLAIN the followings:

- (a) Bridge Finance
- (b) Floating Rate Bonds
- (c) Packing Credit.

**(3 points x 2 M Each=6 Mark)**

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**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 questions 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.**

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**Question 7:**

(a) Reflect on the externalities presents in each of the following. Also examine their market implications-

- i. A decision to stop smoking
- ii. Switching from conventional farming to organic farming
- iii. Started to drive a car and increased road congestion
- iv. Water polluted by industries
- v. Building Lighthouse

**(5 Marks)**

(b) Explain the principle motivations of a country seeking FDI?

**(3 Marks)**

(c) Explain the role of Liquidity Adjustment Facility (LAF).

**(2 Marks)**

**Question 8:**

(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)**

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**Question 9:**

(a) Describe the term 'Tragedy of commons'. (3 Marks)

(b) Classify each of the following goods based on their characteristics. Mention the rationale.

- (i) Open-access Wi-Fi networks
- (ii) Roads with toll booths
- (iii) Parks

(3 Marks)

(c) Calculate the Operating Surplus with the help of following data-

Particulars	Rs. (In Crore)
Sales	4,000
Compensation to employees	800
Intermediate consumption	600
Rent	400
Interest	300
Net indirect taxes	500
Consumption of fixed capital	200
Mixed income	400

(2 Marks)

(d) Answer the following question using Keynesian framework of demand for money. An investment consultant suggests holding of cash instead of bonds. What could be the reason to encourage holding of money balances? Explain

(2 Marks)

**Question 10:**

(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) How is exchange rate determined under floating exchange rate regime? (2 Marks)

(2 Marks)

(d) What is meant by trade distortion? (2 Marks)

(2 Marks)

**Question 11:**

(a) Define information failure (3 Marks)

(3 Marks)

(b) Why do you consider national defence as a public good? (2 Marks)

(2 Marks)

- (c) Define Reserve Money? Compute the Reserve Money from the following data Published by RBI.

<b>Components</b>	<b>(In billions of Rs.) As on 7th July 2018</b>
Currency in circulation	15428.40
Bankers Deposits with RBI	4596.18
Other Deposits with RBI	183.30

**(5 Marks)**

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