(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 14.08.2021 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) Mr. Mehra had purchased a share of Alpha Limited for Rs. 1,000. He received dividend for a period of five years at the rate of 10 percent. At the end of the fifth year, he sold the share of Alpha Limited for Rs. 1,128. You are required to compute the cost of equity as per realised yield approach.

(5 Marks)

(b) Shahji Steels Limited requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project – by raising debt of Rs. 2,50,000 or Rs. 10,00,000 or Rs. 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs. 150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs. 10,00,000. The funds can be borrowed at the rate of 10 percent upto Rs. 2,50,000, at 15 percent over Rs. 2,50,000 and upto Rs. 10,00,000 and at 20 percent over Rs. 10,00,000. The tax rate applicable to the company is 50 percent. ANALYSE which form of financing should the company choose?

(5 Marks)

(c) From the following details of X Ltd., PREPARE the Income Statement for the year ended 31st March, 20X8:

Financial Leverage	2
Interest	Rs. 5,000
Operating Leverage	3
Variable cost as a percentage of sales	75%
Income tax rate	30%

(5 Marks)

(d) Probabilities for net cash flows for 3 years of a project of Ganesh Ltd are as follows:

Year 1		Year 2		Year 3	
Cash Flow (Rs.)	**Probability**	**Cash Flow (Rs.)**	**Probability**	**Cash Flow (Rs.)**	**Probability**
2,000	0.1	2,000	0.2	2,000	0.3
4,000	0.2	4,000	0.3	4,000	0.4
6,000	0.3	6,000	0.4	6,000	0.2
8,000	0.4	8,000	0.1	8,000	0.1

CALCULATE the expected net cash flows and the present value of the expected cash flow, using 10 per cent discount rate. Initial Investment is Rs. 10,000.

(5 Marks)

Question 2:

Following is the abridged Balance Sheet of Alpha Ltd. :-

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital	1,00,000	Land and Buildings		80,000
Profit and Loss Account	17,000	Plant and Machineries	50,000	
Current Liabilities	40,000	Less: Depreciation	15,000	35,000
				1,15,000
		Stock	21,000	
		Receivables	20,000	
		Bank	1,000	42,000
Total	1,57,000	Total		1,57,000

With the help of the additional information furnished below, you are required to prepare Trading and Profit & Loss Account and a Balance Sheet as at 31st March, 2017:

(i) The company went in for reorganisation of capital structure, with share capital remaining the same as follows:

Share capital	50%
Other Shareholders' funds	15%
5% Debentures	10%
Payables	25%

Debentures were issued on 1st April, interest being paid annually on 31st March.

(ii) Land and Buildings remained unchanged. Additional plant and machinery has been bought and a further Rs. 5,000 depreciation written off.
(The total fixed assets then constituted 60% of total fixed and current assets.)

(iii) Working capital ratio was 8 : 5.

(iv) Quick assets ratio was 1 : 1.

(v) The receivables (four-fifth of the quick assets) to sales ratio revealed a credit period of 2 months. There were no cash sales.

(vi) Return on net worth was 10%.

(vii) Gross profit was at the rate of 15% of selling price.

(viii) Stock turnover was eight times for the year.
Ignore Taxation

(10 Marks)

Question 3:

(a) Company X is forced to choose between two machines A and B. The two machines are designed differently, but have identical capacity and do exactly the same job. Machine A costs Rs. 1,50,000 and will last for 3 years. It costs Rs. 40,000 per year to run. Machine B is an 'economy' model costing only Rs. 1,00,000, but will last only for 2 years, and costs Rs. 60,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10 per cent. Which machine company X should buy?

(6 Marks)

(b) The following information pertains to SD Ltd.

Earnings of the Company	Rs. 50,00,000
Dividend Payout ratio	60%
No. of shares outstanding	10,00,000
Equity capitalization rate	12%
Rate of return on investment	15%

(i) COMPUTE the market value per share as per Walter's model?

(ii) COMPUTE the optimum dividend payout ratio according to Walter's model and the market value of Company's share at that payout ratio?

(4 Marks)

Question 4:

The following information has been extracted from the records of a Company:

Product Cost Sheet	Rs./unit
Raw materials	45
Direct labour	20
Overheads	40
Total	105
Profit	15
Selling price	120

- Raw materials are in stock on an average of two months.
- The materials are in process on an average for 4 weeks. The degree of completion is 50%.
- Finished goods stock on an average is for one month.
- Time lag in payment of wages and overheads is 1½ weeks.
- Time lag in receipt of proceeds from debtors is 2 months.
- Credit allowed by suppliers is one month.
- 20% of the output is sold against cash.
- The company expects to keep a Cash balance of Rs. 1,00,000.
- Take 52 weeks per annum.

The Company is poised for a manufacture of 1,44,000 units in the year.

You are required to prepare a statement showing the Working Capital requirements of the Company.

(10 Marks)

Question 5:

Slide Ltd. is preparing a cash flow forecast for the three months period from January to the end of March. The following sales volumes have been forecasted:

Months	December	January	February	March	April
Sales (units)	1,800	1,875	1,950	2,100	2,250

Selling price per unit is Rs. 600. Sales are all on one month credit. Production of goods for sale takes place one month before sales. Each unit produced requires two units of raw materials costing Rs. 150 per unit. No raw material inventory is held. Raw materials purchases are on one month credit. Variable overheads and wages equal to Rs. 100 per unit are incurred during production and paid in the month of production. The opening cash balance on 1st January is expected to be Rs. 35,000. A long term loan of Rs. 2,00,000 is expected to be received in the month of March. A machine costing Rs. 3,00,000 will be purchased in March.

(a) Prepare a cash budget for the months of January, February and March and calculate the cash balance at the end of each month in the three months period.

(b) Calculate the forecast current ratio at the end of the three months period.

(10 Marks)

Question 6:

(i) EXPLAIN the followings:

(a) Bridge Finance

(b) Floating Rate Bonds

(c) Packing Credit.

(6 Marks)

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

(4 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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