(GI-1, GI-2, GI-3, GI-4, GI-5, GI-6, GI-7, VI-1, VDI-1, Drive, FMT)

DATE: 15.10.2023 **MAXIMUM MARKS : 100** **TIMING: 3¼ Hours**

FM + ECO

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) From the following data related to a company, you are required to prepare Balance Sheet as at 31st March, 2017:

Current ratio	1.75
Liquid ratio	1.25
Stock turnover ratio (closing stock)	6 times
Gross profit ratio	20%
Debt Collection period	2 months
Reserve to capital ratio	0.6
Fixed assets turnover ratio (on cost of goods sold)	1.2
Capital gearing ratio	0.625
Fixed assets to net worth	1.26
Sales for the year	Rs. 15 lakhs

(7 Marks)

(b) Determine the market price of equity shares of ZEROX Ltd. from the following information:

Earnings of the Company	Rs. 10,00,000
Dividend paid	Rs. 6,00,000
Number of shares outstanding	2,00,000
Price earning ratio	8
Rate of Return on Investment	15%

Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend payout ratio? Use Walter's Model.

(6 Marks)

(c) 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 debt (before tax)	Cost of equity
Upto Rs. 2 lakhs	10%	12%
Above Rs. 2 lakhs & upto to Rs. 5 lakhs	11%	13%
Above Rs. 5 lakhs & upto Rs. 10 lakhs	12%	14%
Above Rs. 10 lakhs & upto 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?

(7 Marks)

Question 2:
Meena Limited plans to manufacture and sell 400 units of a domestic appliance per month at a price of Rs. 600 each. The ratio of costs to selling price are as follows:

	% of Selling Price
Raw Materials	30%
Packing Materials	10%
Direct Labour	15%
Direct Expense	5%

Fixed overheads are estimated at Rs. 4,32,000 per annum.
The following norms are maintained for inventory management:

Raw Materials	30 days
Packing Materials	15 days
Finished Goods	200 units
Work-in-Progress	7 days

Additional Informations:
(1) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.
(2) Creditors for all kind materials allow 21 working days credit for payment.
(3) Lag in payment of overheads and expenses is 15 working days.
(4) Contingency reserve requirements to be 12% of net working capital.
(5) Working days in a year are taken as 300 for budgeting purpose.
(6) Packing material is incurred on completion of goods and part of cost of goods sold.
(7) Material put in beginning and wages and overhead accrue evenly.
Prepare a working capital requirement forecast for the budget year.

(10 Marks)

Question 3:
ABC Limited is considering an investment proposed to install a new machine. The project will cost Rs. 50,000 and will have a life of 5 years and no salvage value. The company's tax rate is 50% and no investment allowance is allowed. The firm uses straight line method of depreciation. The estimated net Income before depreciation and tax from the proposed investment proposal are as follows:

Year	**Net Income before Depreciation & Tax**
	Rs.
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following:
1. Pay-back period
2. Average rate of return
3. Net Present Value at 10% discount rate.
4. Profitability index at 10% discount rate.

Year	**PV Factors at 10%**	**Year**	**PV Factors at 10%**
1	0.909	3	0.751
2	0.826	4	0.683
		5	0.621

(10 Marks)

Question 4:

(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) 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 5:

A firm has sales of Rs. 75,00,000 variable cost is 56% and fixed cost is Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

(i) What is the firm's ROI?

(ii) Does it have favourable finance?

(iii) If the firm belongs to an industry whose capital turnover is 3, does it have a high or low capital turnover?

(iv) What are the operating, financial and combined leverages of the firm?

(v) If the sales is increased by 10% by what percentage EBIT will increase?

(vi) At what level of sales the EBT of the firm will be equal to zero?

(vii) If EBIT increases by 20%, by what percentage EBT will increase?

(10 Marks)

Question: 6 : Write Short notes:

(a) Global depository Bonds (GDRs)

(2½ Marks)

(b) Indian depository Bonds (IDRs)

(2½ Marks)

(c) Venture Capital Financing

(2½ Marks)

(d) Plain Vanilla Bonds

(2½ Marks)

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 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 7:

(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

(3 Marks)

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

(3 Marks)

(c) Explain Export Duties.

(2 Marks)

(d) Why GATT lost its relevance by 1980?

(2 Marks)

Question 8:

(a) In 1983 Australia decided to float its dollar. Assuming free trade, explain the effects of each of the following on the spot exchange rate between AUD and USD.

(i) There is a substantial increase demand in Australia for US exports of services. Since Australia manufactures were favoured over others, there is a proportionate increase in exports of Australian products to the US

(ii) Investors in Australia perceive that the returns on investments in the US would be much more lucrative than elsewhere. As a result there is a huge increase in demand for investments in US dollar denominated financial investments

(iii) Political uncertainties in the US due to presidential elections caused large scale shift of Australian financial investments back in to Australia.

(iv) An epidemic in some parts of Australia made the US evoke SPS measures and ban the entry of a number of food items to the US

(5 Marks)

(b) Mention the Main Advantages of a Fixed Rate Regime.

(3 Marks)

(c) Write a note on Overseas Direct Investment by Indian Companies.

(2 Marks)

Question 9:

(a) Explain Circular Flow of Income.

(3 Marks)

(b) Explain GDP (Gross Domestic Product) at Basic Prices.

(2 Marks)

(c) Mention few Limitations and Challenges of National Income Computation.

(3 Marks)

(d) Explain the concept of the Investment Multiplier.

(2 Marks)

Question 10:

(a) Which of the following is a FDI?

(i) Claram Joe, a German investor buys 5000 shares of Ford, a US Automobile company.

(ii) Annette D, the US Company acquires all the equity shares of Emeline & Co in Alice Land which makes computer components.

(iii) A Bulgarian investor Boryana Gergiev pays cash and buys 0.2 % of all outstanding equity shares of Mariette company which makes computer peripherals

(iv) Maansi Tech solutions purchase 52% stake in a Sarra, a Jamaican technology firm

(v) Kora extends a loan to Christa Victorine, a power producing firm in which it holds 60 percent of equity

(5 Marks)

(b) Mention Export – Related measures.

(3 Marks)

(c) Write a short note on The General Agreement on Tariffs and Trade (GATT).

(2 Marks)

Question 11:

(a) How would each of the following affect money multiplier and money supply?

(i) Commercial banks in India decide to hold more excess reserves

(ii) Fearing shortage of money in ATMs, people decide to hoard money

(iii) Banks open large number ATMs all over the country

(iv) E banking becomes very common and nearly all people use them

(v) During festival season , people decide to use ATMs very often

(5 Marks)

(b) Mention difference between Foreign Direct Investment (FDI) Vs Foreign Portfolio Investment (FPI).

(3 Marks)

(c) Mention different Modes of Foreign Direct Investment (FDI).

(2 Marks)

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