

SECTION -A

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

Maximum Marks – 60

QUESTION NO.1

(5 MARKS X 4 = 20 MARKS)

- A. With the help of the following information **ANALYSE and complete the Balance Sheet of Anup Ltd.:**

Equity share capital	Rs. 1,00,000
<i>The relevant ratios of the company are as follows:</i>	
Current debt to total debt	0.40
Total debt to Equity share capital	0.60
Fixed assets to Equity share capital	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

- B. With the help of following figures **CALCULATE the market price of a share** of a company by using:

- (i) Walter's formula
(ii) Dividend growth model (Gordon's formula)

Earnings per share (EPS)	Rs. 10
Dividend per share (DPS)	Rs. 6
Cost of capital (k)	20%
Internal rate of return on investment	25%
Retention Ratio	60%

- C. Annual sales of a company is Rs. 60,00,000. Sales to variable cost ratio is 150 per cent and Fixed cost other than interest is Rs. 5,00,000 per annum. Company has 11 per cent debentures of Rs. 30,00,000.

You are required to calculate the operating, Financial and combined leverage of the company.

- D. **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

QUESTION NO.2

- A. Navya Ltd has annual credit sales of Rs. 45 lakhs. Credit terms are 30 days, but its management of receivables has been poor and the average collection period is 50 days, Bad debt is 0.4 per cent of sales. A factor has offered to take over the task of debt administration and credit checking, at an annual fee of 1 per cent of credit sales. Navya Ltd. estimates that it would save Rs. 35,000 per year in administration costs as a result. Due to the efficiency of the factor, the average collection period would reduce to 30 days and bad debts would be zero. The factor would advance 80 per cent of invoiced debts at an annual interest rate of 11 per cent. Navya Ltd. is currently financing receivables from an overdraft costing 10 per cent per year.

If occurrence of credit sales is throughout the year, **COMPUTE whether the factor's services should be accepted or rejected.** Assume 365 days in a year.

(6 Marks)

- B. EXPLAIN the basics of debt securitisation process.

(4 Marks)

QUESTION NO.3

(10 MARKS)

X Ltd. is considering to select a machine out of two mutually exclusive machines. The company's cost of capital is 15 per cent and corporate tax rate is 30 per cent. Other information relating to both machines is as follows:

	Machine – I	Machine – II
Cost of Machine	Rs. 30,00,000	Rs. 40,00,000
Expected Life	10 years.	10 years.
Annual Income		
(Before Tax and Depreciation)	Rs. 12,50,000	Rs. 17,50,000

Depreciation is to be charged on straight line basis:

You are required to CALCULATE:

- Discounted Pay Back Period
- Net Present Value

(iii) Profitability Index

The present value factors of Re.1 @ 15% are as follows:

Year	01	02	03	04	05
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497

QUESTION NO.4

(10 MARKS)

Best of Luck Ltd., a profit making company, has a paid-up capital of Rs. 100 lakhs consisting of 10 lakhs ordinary shares of Rs. 10 each. Currently, it is earning an annual pre-tax profit of Rs. 60 lakhs. The company's shares are listed and are quoted in the range of Rs. 50 to Rs. 80. The management wants to diversify production and has approved a project which will cost Rs. 50 lakhs and which is expected to yield a pre-tax income of Rs. 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

- (a) To issue equity share capital for the entire additional amount. It is expected that the new shares (face value of Rs. 10) can be sold at a premium of Rs. 15.
- (b) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.
- (c) To issue equity capital for Rs. 25 lakhs (face value of Rs. 10) and 16% non-convertible debentures for the balance amount. In this case, the company can issue shares at a premium of Rs. 40 each.

You are required to advise the management as to how the additional capital can be raised, keeping in mind that the management wants to maximise the earnings per share to maintain its goodwill. The company is paying income tax at 50%.

QUESTION NO.5

(10 MARKS)

The following data relates to four Firms -

Firm	A	B	C	D
EBIT	Rs.2,00,000	Rs.3,00,000	Rs.5,00,000	Rs.6,00,000
Interest	Rs.20,000	Rs.60,000	Rs.2,00,000	Rs.2,40,000
Equity Capitalization Rate	12%	16%	15%	18%

Assuming that there are no taxes and Interest Rate on Debt is 10%, determine the Value and WACC of each Firm using the Net Income Approach. What happens if Firm A borrows Rs. 2 Lakhs at 10% to repay Equity Capital ?

QUESTION NO.6

- A. EXPLAIN as to how the wealth maximisation objective is superior to the profit maximisation objective What is the cost of these sources? **(4 MARKS)**
- B. DESCRIBE Bridge Finance. **(4 MARKS)**
- C. EXPLAIN Concentration Banking **(2 MARKS)**

SECTION –B

Question 1 is compulsory question.

Attempt any three from the remaining four questions

7. (a) Calculate National Income by Value Added Method with the help of following data-

Particulars	Rs. (in crore)
Sales	700
Opening stock	500
Intermediate Consumption	350
Closing Stock	400
Net Factor Income from Abroad	30
Depreciation	150
Excise Tax	110
Subsidies	50

(3 Marks)

- (b) Define Social Good? What is the similarity and dissimilarity between Social Goods and Common Pool Resources? **(2 Marks)**
- (c) Why Marginal Standing Facility (MSF) would be the last resort for banks? **(3 Marks)**
- (d) Assume that 15% specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs.1000/- , then find out the amount of total tariff revenue collected by the government? **(2 Marks)**
8. (a) (i) Suppose M3 = Rs. 450000 Crore
Currency with Public = Rs 3000 Crore
Demand Deposits of Banks = Rs. 100000 Crore
Other deposits with RBI= Rs. 100000 Crore
Saving Deposits with Post Office Saving Banks = Rs. 150000 Crore
Total deposits with the Post Office Savings Organization (excluding National Saving Certificate) = Rs. 20000 Crore

National Saving Certificate = Rs. 250 Crore

Calculate Net Time Deposits and M4 with the banking system?

(3 Marks)

(ii) Compare transaction demand for money according to Keynes and Baumol & Tobin? **(2 Marks)**

(b) How does trade increase economic efficiency and which view argued that trade is a zero-sum game and how? **(3 Marks)**

(c) Is country like India unable to estimate their National Income wholly by one method? Give comments **(2 Marks)**

9. (a) How does the government intervene to minimize market power?

(5 Marks)

(b) Define the deposit expansion multiplier? How it is calculated?

(3 Marks)

(c) Suppose MPC is 0.8 and it is planned to increase National Income by Rs. 3000 Crore then how much increase in investment is required to fulfill this target?

(2 Marks)

10. (a) What is meant by foreign exchange market? What are the roles played by the participants in the foreign exchange market?

(5 Marks)

(b) Define 'Net Factor Income from Abroad'

(3 Marks)

(c) Determine the government spending multiplier when there is an increase of Rs. 100 crore in government spending and MPC is 0.75? And also find out the net effect of Rs. 100 crore spending?

(2 Marks)

11. (a) (i) What are the main advantages of fixed rate regime in an open economy?

(3 Marks)

(ii) How the autonomous expenditure multiplier is stated in four sector model?

(2 Marks)

(b) (i) What is non-discretionary fiscal policy and how it occurs?

(3 Marks)

(ii) Explain the concept of demand for money?

(2 Marks)

Or

Define the term Regional Trade Agreement (RTAs)?

(2 Marks)