PART- A

F.M.

QUESTION NO. 1 is compulsory and attempt any four out of remaining five questions.

QUESTION NO.1 **(5 MARKS X 4 = 20 MARKS)**

A. Gamma Limited is considering building an assembly plant and the company has two options, out of which it wishes to choose the best plant. The projected output is 10,000 units per month. The following data is available:

	Rs.	
	Plant A	**Plant B**
Initial Cost	60,00,000	44,00,000
Direct Labour Cost p.a. (1st Shift)	30,00,000	15,00,000
(Second Shift)	-	19,00,000
Overhead (per year)	5,00,000	4,20,000

Both the plants have an expected life of 10 years after which there will be no salvage value. The cost of capital is 10 percent. The present value of an ordinary annuity of Re. 1 for 10 years @ 10 percent is 6.1446. Ignore effect of taxation.

You are required to determine:

(a) What would be the desirable choice?

(b) What other important elements are to be considered before the final decision is taken?

B. PQR Ltd. has the following capital structure on October 31, 20X8:

Sources of capital	**(Rs.)**
Equity Share Capital (2,00,000 Shares of Rs. 10 each)	20,00,000
Reserves & Surplus	20,00,000
12% Preference Shares	10,00,000
9% Debentures	30,00,000
	80,00,000

The market price of equity share is Rs. 30. It is expected that the company will pay next year a dividend of Rs. 3 per share, which will grow at 7% forever. Assume 40% income tax rate.

You are required to COMPUTE weighted average cost of capital using market value weights.

C. The earning per share of a company is Rs. 10 and the rate of capitalisation applicable to it is 10 per cent. The company has three options of paying dividend i.e. (i) 50%, (ii) 75% and (iii) 100%.

CALCULATE the market price of the share as per Walter's model if it can earn a return of (a) 15, (b) 10 and (c) 5 per cent on its retained earnings.

D. Assuming the current ratio of a Company is 2, STATE in each of the following cases whether the ratio will improve or decline or will have no change :

(i) Payment of current liability

(ii) Purchase of fixed assets by cash

(iii) Cash collected from Customers

(iv) Bills receivable dishonoured

(v) Issue of new shares

QUESTION NO.2 **(10 MARKS)**

Day Ltd., a newly formed company has applied to the Private Bank for the first time for financing it's Working Capital Requirements. The following information are available about the projections for the current year :

Estimated Level of Activity	Completed Units of Production 31200 plus unit of work in progress 12000
Raw Material Cost	Rs. 40 per unit
Direct Wages Cost	Rs. 15 per unit
Overhead	Rs. 40 per unit (inclusive of Depreciation Rs. 10 per unit)
Selling Price	Rs. 130 per unit
Raw Material in Stock	Average 30 days consumption
Work in Progress Stock	Material 100% and Conversion Cost 50%
Finished Goods Stock	24000 Units
Credit Allowed by the supplier	30 days
Credit Allowed to Purchasers	60 days

Direct Wages (Lag in payment)	15 days
Expected Cash Balance	Rs. 2,00,000

Assume that production is carried on evenly throughout the year (360 days) and wages and overheads accrue similarly. All sales are on the credit basis. **You are required to calculate the Net Working Capital Requirement on Cash Cost Basis.**

QUESTION NO.3 **(10 MARKS)**

Maruti Ltd. requires a plant costing Rs. 200 lakhs for a period of 5 years. The company can use the plant for the stipulated period through leasing arrangement or the requisite amount can be borrowed to buy the plant. In case of leasing, the company received a proposal to pay annual lease rent of Rs. 48 Lakhs at the end of each year for a period of 5 years.

In case of purchase, the company would have a 12%, 5 years loan to be paid in equated annual instalment, each instalment becoming due in the beginning of each year. It is estimated that plant can be sold for Rs. 40 Lakhs at the end of 5^{th} year. The company uses straight line method of depreciation. Corporate tax rate is 30%. Cost of Capital after tax for the company is 10%.

The PVIF @ 10% and 12% for the five years are given below :

Year	1	2	3	4	5
PVIF @ 10	0.909	0.826	0.751	0.683	0.621
PVIF @ 12	0.893	0.797	0.712	0.636	0.567

You are required to advise whether the plant should be purchased or taken on lease.

QUESTION NO.4 **(10 MARKS)**

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. **You are required to INTERPRET :**

(i) The firm's ROI ?

(ii) Does it have favourable financial leverage ?

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

(iv) 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 ?

QUESTION NO.5 **(10 MARKS)**

Simple Travel is a steadily growing company that follows a rather conservative approach to it capital expenditure plans due to inherent risks involved. The firm normally does not take capita] expenditure that last more than 5 years and follows a policy of converting the risky cash flows to their certainty equivalents by assigning certainty equivalent factors of 0.9, 0.8, 0.7, 0.6 and 0.5 for the cash flows of Year 1 to Year 5 respectively.

The post tax cash flows of two such mutually exclusive projects A and B, are given below:

Estimated cash flows (Rs lakhs)		
Year	**Project A**	**Project B**
0	-250	-250
1	60	100
2	70	120
3	80	100
4	120	20
5	120	40

The cost of capital for the firm is 17% while the risk free return is 6%.

i) Which project should be undertaken based on NPV rule?

ii) Which project must be undertaken if certainty equivalent approach is followed?

QUESTION NO.6

A. EXPLAIN the difference between Financial Lease and Operating Lease. **(4 MARKS)**
B. STATE two advantages of Walter Model of Dividend Decision. **(2 MARKS)**
C. EXPLAIN the followings: **(2*2 = 4 MARKS)**

(i) Floating Rate Bonds

(ii) Packing Credit.

PART - B

Question 7 is compulsory and attempt any three questions out of remaining four

Question 7:

(A)

Credit Money is one of the sources of money in Indian Economy. Explain this statement. **(3 marks)**

(B)

Describe any four objectives of Fiscal Policy. **(2 marks)**

(C)

Assume a two sector economy. If consumption function is C = 1000 + 0.6Y, and S = 6000, Compute Equilibrium Level of National Income. Also Compute Consumption Expenditure and Investment at that level. **(3 marks)**

(D)

What is Multilateral Trade Agreement? **(2 marks)**

Question 8:

(A)

From the following data, compute NM1, NM2, NM3, L1, L2 and L3 (assume amounts in Rs. Crores)

Currency in circulation with public	7000	Bankers' Deposits with RBI	6000
Demand Deposits of Banks	13000	Call / Term Funding from Financial institutions	10000
Other Deposits of RBI	4000	Total Deposits with Post Office Savings banks (incl. NSC)	19000
Time Deposits of Banks – Short term	28000	National Saving Certificates (NSC)	3000
Time Deposits of Banks – Long Term	64000	Term Deposits with term Lending & Re –Financing institutions	9000
Public Deposits of NBFCs	12000	Term Borrowing by and CD's issued by Financing Institutions	5000

(5 marks)

(B)

Write a short note on "Private Cost" and "Social Cost". **(3 marks)**

(C)

What is meant by Exchange rate? **(2 marks)**

Question 9:

(A)

Theoretical discussion of Monetary Policy may sound uncomplicated. But there are practical challenges in its implementation. List a few such challenges. **(3 marks)**

(B)

What is meant by Recessionary Gap and Inflationary Gap? **(3 marks)**

(C)

What are the objectives of General Agreement on tariff and Trade (GATT)? **(2 marks)**

(D)

What do you mean by National Income? **(2 marks)**

Question 10:

(A)

Suppose only the following transactions take place in an economy:

- Industry A imports goods worth Rs.100. It sells goods worth Rs.400 to Industry B, goods worth Rs. 200 to Industry C and goods worth Rs.1000 for private consumption.
- Industry B sells goods worth Rs.500 to Industry C and goods worth rs.800 for Private Consumption.
- Industry C sells goods worth Rs.600 to private consumption and Exports goods valued at Rs.500.
- Depreciation cost during the year is Rs. 100.
- Government realizes Indirect taxes of the value of Rs.100. Subsidies paid by the government is Rs. 50.

Calculate the following with the help of Net Value Added Method:

(a) GNP_{MP} (b) GNP_{FC} (C) NNP_{MP} (D) NNP_{FC} **(5 marks)**

(B)

Differentiate between "Policy Rate" and "Bank Rate". **(3 marks)**

(C)

What do you mean by Supply - side Fiscal Policy? **(2 marks)**

Question 11:

(A)

Differentiate between Depreciation of currency and Devaluation of currency.

(3 marks)

(B)

Write the short note on the concept of "Monetary Policy". **(3 marks)**

(C)

Differentiate between Non-Tariff Measures (NTMs) vs. Non-tariff Barriers (NTBs).

(2 marks)

(D)

Assume a two sector economy, and the business sector produces 10000 units of output at an average price of Rs.15.

i) What is the money value of output?

ii) If household spend 80% of their income, what is the total consumer expenditure? **(2 marks)**