SECTION 1 : FINANCIAL MANAGEMENT (60 Marks)

Question 1 is compulsory, attempt any 5 from the rest.

Question 1 (20 marks) (4 * 5 marks)

(A)

The Management of Fibroplast Limited is trying to establish a Current Assets policy. Fixed Assets are ` 6,00,000, and the Company plans to maintain a 50% Debt – to – Assets ratio. It has no opening Current Liabilities. The Interest Rate is 10% on all Debts. The Company is considering three alternative Current Assets Policies – 40%, 50% and 60% of Projected Sales. The Company expects to earn 15% before Interest and Taxes on Sales of ` 30, 00,000. The effective tax rate is 40%. You are required to calculate the expected Return on Equity under each alternative.

(B)

Calculate the degree of Operating Leverage, Degree of Financial Leverages and the Degree of Combined Leverage for the following Firms and interpret the results.

Firm	P	Q	R
1. Output (in units)	2,50,000	1,25,000	7,50,000
2. Fixed Costs (`)	5,00,00	2,50,000	10,00,000
3. Unit Variable Costs (`)	5.00	2.00	7.50
4. Unit Selling Price (`)	7.50	7.00	10.00
5. Interest Expenses (`)	75,000	25,000	-

(C)

X Ltd is considering the following two alternative Financing Plans.

Particulars	Plan – I `	Plan – II `
Equity Shares of ` 10 each	4,00,000	4,00,000
12% Debentures	2,00,000	-
Preference Shares of ` 100 each	-	2,00,000
Total	`6,00,000	`6,00,000

The Indifference Point between the Plan is ` 2,40,000. Corporate Tax Rate is 30%. Calculate the Rate of Dividend on Preference Shares.

(D)

From the following details relating to a Project, analyse the sensitivity of the project to changes ini Initial Project Cost, Annual Cash Inflow and Cost of Capital:

Initial Project Cost	`1,8,000	Project Life (Years)	4
Annual Cash Inflow	`45,000	Cost of Capital	10%

To which of the three factors, the Project is most sensitive? (Use Annuity Factors: for 10% =3.169 and 11% = 3.109.)

Question 2

(A) Explain "Profit Maximisation" & "Value Maximisation" objects of finance function. (4 marks)

(B)

From the following, compute the Net Present Value (NPVs) of the two projects for each of the possible cash flows. [` 000's]

Particulars	Project X	Project Y	Cash Inflows Estimates (T = 1 – 10)	Project X	Project Y
Initial Cash Outflows (T=0)	30	30	Worst	5	8
Required Rate of Return	14%	14%	Most likely	8	10
Economics Life (years)	10	10	Best	15	8

(4 marks)

Question 3 (8 marks)

Using the following information, complete the Balance Sheet given below:

i. Total Debt to Net Worth: 1:2	iv. Average Collection Period (Assume 360 days in a year): 40 days
ii. Total Assets Turnover: 2	v. Inventory Turnover Ratio based on Cost of Goods Sold and year – end inventory:3
iii. Gross Profits on Sales: 30%	vi. Acid Test Ratio: 0.75

Balance Sheet as on 31st March

Liabilities	`	Assets	`
Equity Share Capital	4,00,000	Plant Machinery on other Fixed Assets	-
Reserves and Surplus	6,00,000	Current Assets:	
Total Debt:		Inventory	-
Current Liabilities	-	Debtors	-
		Cash	-
Total		Total	

Question 4

(A) What do you mean by Bridge Finance? (4 marks)

(B) P Ltd has decided to acquire a machine costing ` 50 Lakhs through leasing. Quotations from 2 leasing Companies have been obtained which are summarized below:

Particulars	Quote A	Quote B
Lease Term	3 years	4 years
Initial Lease Rent (` Lakhs)	5.00	1.00
Annual Lease Rent (Payable in Arrears)(` Lakhs)	21.06	19.66

P Ltd evaluates investment Proposals at 10% Cost of Capital and its effective tax rate is 30%. Terminal Payment in both cases is negligible and may be ignored.

Make calculations and show which quote is beneficial to P Ltd. Present Value Factors at 10% Discount Rate for years 1 – 4 are respectively 0.91, 0.83, 0.75 and 0.68. Calculations may be rounded off to 2 decimals in Lakhs. (4 marks)

Question 5

The Following details are forecasted by a Company for the purpose of effective utilization and management of Cash –

1. Estimated Sales and Manufacturing Costs:

Year 2010 Month	Sales	Materials	Wages	Overheads
April	4,20,000	2,00,000	1,60,000	45,000
May	4,50,000	2,10,000	1,60,000	40,000
June	5,00,000	2,60,000	1,65,000	38,000
July	4,90,000	2,82,000	1,65,000	37,500
August	5,40,000	2,80,000	1,65,000	60,800
September	6,10,000	3,10,000	1,70,000	52,000

2. Credit – Terms:

(a) 20% Sales are on Cash. 50% of the Credit Sales are collected next month and the balance in the following month.

(b) Credit allowed by Suppliers is 2 months.

(c) Delay in payment of Wages is ½ (one-half) month and of Overheads is 1 (one) month.

3. Interest on 12% Debentures of ` 5, 00,000 is to be paid half-yearly in June and December.

4. Dividends on Investments amounting to ` 25,000 are expected to be received in June.

5. A New Machinery will be installed in June at a cost of ` 4, 00,000 payable in 20 monthly instalments from July onwards.

6. Advance Income – Tax to be paid in August is ` 15,000
7. Cash balance on 1st June is expected to be ` 45,000 and the Company wants to keep it at the end of every month around this figure, the excess cash (in multiple of thousand rupees) being put in the Fixed Deposit.

You are required to prepare monthly Cash Budget on the basis of above information for four months beginning from June. (8 marks)

Question 6

A Company has two alternative proposals under consideration. Project A requires a capital outlay of ` 12, 00,000 and Project B requires ` 18, 00,000. Both are estimated to provide a cash flow for 5 years as Project A ` 4, 00,000 per year and Project B ` 5, 80,000 per year. Cost of Capital is 10%.

Show which of the two projects is preferable from the viewpoint of – (1) NPV, (2) PV Index Method, and (3) IRR Method. (8 marks)

Question 7

a.

On the basis of the following information –

Current Dividend (D_0)	` 2.50
Discount Rate (k)	105%
Growth Rate (g)	2%

Calculate the Present Value of stock of ABC Ltd. Is its Stock overvalued if Stock Price is ` 35, ROE = 9% and EPS = ` 2.25? Show your calculations under – (a) PE Multiple Approach, and (b) Earnings Growth Model. (4 marks)

b. What are the advantages and disadvantages of Wealth Maximization? (4 marks)

SECTION 2 : ECONOMICS (40 marks)

Question 1 is compulsory. Attempt any 4 from the rest

Question 1

(A) Distinguish between "Gross" vs "Net" Measures in measuring National Income. (4 marks)
(B) Differentiate between "Policy Rate" and "Bank Rate". (4 marks)

Question 2 (8 marks)

Explain the 2 – Sector Model of Equilibrium Level of National Income under Keynesian Philosophy.

Question 3 (8 marks)

Explain the Money Multiplier Approach to Supply of Money.

Question 4

(A) Explain the scope of Government Intervention to minimize Market Power. (4 marks)
(B) Briefly describe the Benefits & Costs of FDI to the Home Country. (4 marks)

Question 5

(A) Write short notes on "Common Access Resources". (4 marks)
(B) Write short notes on the Fixed Exchange Rate Regime. (4 marks)

Question 6

(A) Distinguish between Depreciation of Currency and Devaluation of Currency/ (4 marks)
(B) Explain the significance of "Public Debt" as an Instrument of Fiscal Policy. (4 marks)