Roll No. ....

Total No. of Questions – **11**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

HLAZ

Answers are to be given only in English, except in the case of the candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

SECTION – A

Marks : 60

Question **No. 1** is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.

In case, any candidates answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) shall be ignored.

Working Notes should form part of the answers.

Marks

1. (a) Stopgo Ltd, an all equity financed company, is considering the repurchase of ₹ 200 lakhs equity and to replace it with 15% debentures of the same amount. Current market value of the company is ₹ 1140 lakhs and it's cost of capital is 20%. It's Earnings before Interest and Taxes (EBIT) are expected to remain constant in future. It's entire earnings are distributed as dividend. Applicable tax rate is 30 per cent. **5**

Marks

You are required to calculate the impact on the following on account of the change in the capital structure as per **Modigliani and Miller** (MM) Hypothesis:

(i) The market value of the company

(ii) It's cost of capital; and

(iii) It's cost of equity

(b) The following data have been extracted from the books of LM Ltd : 5

Sales – ₹ 100 lakhs

Interest Payable per annum – ₹ 10 lakhs

Operating leverage – 1.2

Combined leverage – 2.16

You are required to calculate:

(i) The financial leverage,

(ii) Fixed cost and

(iii) P/V ratio.

(c) The accountant of Moon Ltd. has reported the following data : 5

Gross profit	₹ 60,000
Gross Profit Margin	20 per cent
Total Assets Turnover	0.30:1
Net Worth to Total Assets	0.90:1

Marks

Current Ratio	1.5:1
Liquid Assets to Current Liability	1:1
Credit Sales to Total Sales	0.80:1
Average Collection Period	60 days

7

Assume 360 days in a year

You are required to complete the following:

Balance Sheet of Moon Ltd.

Liabilities	₹	Assets	₹
Net Worth	9l.	Fixed Assets	
Current Liabilities	1l.	Stock	
		Debtors 1.5l.	
		Cash	
Total Liabilities	10l.	Total Assets	10l.

(d) Sun Ltd. is considering two financing plans. **5**

6

Details of which are as under:

(i) Fund's requirement - ₹ 100 Lakhs

(ii) Financial Plan

Plan	Equity	Debt
I	100%	–
II	25%	75%

(iii) Cost of debt - 12% p.a.

(iv) Tax Rate - 30%

(v) Equity Share ₹ 10 each, issued at a premium of ₹ 15 per share

(vi) Expected Earnings before Interest and Taxes (EBIT) ₹ 40 Lakhs

Marks

You are required to compute:

(i) EPS in each of the plan

(ii) The Financial Break Even Point

(iii) Indifference point between Plan I and II

2. (a) XYZ Ltd. is presently all equity financed. The directors of the company have been evaluating investment in a project which will require ₹ 270 lakhs capital expenditure on new machinery. They expect the capital investment to provide annual cash flows of ₹ 42 lakhs indefinitely which is net of all tax adjustments. The discount rate which it applies to such investment decisions is 14% net. 8

The directors of the company believe that the current capital structure fails to take advantage of tax benefits of debt, and propose to finance the new project with undated perpetual debt secured on the company's assets. The company intends to issue sufficient debt to cover the cost of capital expenditure and the after tax cost of issue.

The current annual gross rate of interest required by the market on corporate undated debt of similar risk is 10%. The after tax costs of issue are expected to be ₹ 10 lakhs. Company's tax rate is 30%.

Marks

You are required to calculate:

(i) The adjusted present value of the investment,

(ii) The adjusted discount rate and

(iii) Explain the circumstances under which this adjusted discount rate may be used to evaluate future investments.

(b) What are Masala Bonds ? 2

3. Maruti Ltd. requires a plant costing ₹ 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 ₹ 48 Lakhs at the end of each year for a period of 5 years. 10

In case of purchase, the company would have a 12%, 5 years loan to be paid in equated annual installment, each installment becoming due in the beginning of each year. It is estimated that plant can be sold for ₹ 40 Lakhs at the end of 5th 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.

Marks

4. A company is evaluating a project that requires initial investment of ₹ 60 lakhs in fixed assets and ₹ 12 laks towards additional working capital. 10

The project is expected to increase annual real cash inflow before taxes by ₹ 24,00,000 during its life. The fixed assets would have zero residual value at the end of life of 5 years. The company follows straight line method of depreciation which is expected for tax purposes also. Inflation is expected to be 6% per year. For evaluating similar projects, the company uses discounting rate of 12% in real terms. Company's tax rate is 30%.

Advise whether the company should accept the project, by calculating NPV in real terms.

PVIF (12%, 5 Yrs)		PVIF (6%, 5 Yrs)	
Year 1	0.893	Year 1	0.943
Year 2	0.797	Year 2	0.890
Year 3	0.712	Year 3	0.840
Year 4	0.636	Year 4	0.792
Year 5	0.567	Year 5	0.747

Marks

5. 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 informations are available about the projections for the current year : 10

Estimated Level of Activity	Completed Units of Production 31200 plus Units of Work in Progress 12000
Raw Material Cost	₹ 40 per unit
Direct Wages Cost	₹ 15 per unit
Overhead	₹ 40 per unit (inclusive of Depreciation ₹ 10 per unit)
Selling Price	₹ 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 Suppliers	30 days
Credit Allowed to Purchasers	60 days
Direct Wages (Lag in payment)	15 days
Expected Cash Balance	₹ 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.

Marks

6. Answer all.

(a) What are the sources of short term financial requirement of the comapny ? 4

(b) What is certainty Equivalent ? 4

(c) What are the roles of Finance Executive in Modern World ? 2

OR

What are the two main aspects of the Finance Function ?

Marks

SECTION – B

Marks : 40

Question **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 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 answers.

7. (a) Calculate the Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) from the following data : **2**

Income (Y)	Consumption (C)	Level
₹ 8,000	₹ 6,000	Initial level
₹ 12,000	₹ 9,000	Changed level

(b) What would be the impact of each of the following on credit multiplier and money supply ? **3**

(i) If Commercial Banks keep 100 percent reserves.

(ii) If Commercial Banks do not keep reserves.

(iii) If Commercial Banks keep excess reserves.

(c) Explain the role of Government in a market economy as stated by Richard Musgrave. **3**

(d) List the point of difference between fixed exchange rate and floating exchange rate. **2**

Marks

8. (a) (i) Explain the following modified equation of exchange as given by Irving Fisher : 3

$$MV + M'V' = PT$$

(ii) Describe the meaning and mechanism of 'crowding out' effect of public expenditure. 3

(b) (i) Explain the leakages and injections in the circular flow of income. 2

(ii) Describe features of public goods. 2

9. (a) (i) Explain why people hold money according to Liquidity Preference Theory. 3

(ii) Which types of Government interventions are applied for correcting information failure ? 2

(b) Suppose in an economy : 5

Consumption Function	:	$C = 150 + 0.75\ Yd$
Investment spending	:	$I = 100$
Government spending	:	$G = 115$
Tax	:	$Tx = 20 + 0.20\ Y$
Transfer Payments	:	$Tr = 40$
Exports	:	$X = 35$
Imports	:	$M = 15 + 0.1\ Y$

Marks

Where, Y and Yd are National Income and Personal Disposable Income respectively. All figures are in rupees.

Find :

(i) The equilibrium level of National Income

(ii) Consumption at equilibrium level

(iii) Net Exports at equilibrium level

10. (a) (i) Explain the difference between Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF). 3

(ii) From the following data, compute the Gross National Product at Market Price (GNPMP) using value added method : 3

	(₹ in crores)
Value of output in Secondary Sector	1000
Intermediate consumption in Primary Sector	300
Value of output in Tertiary Sector	3000
Intermediate consumption in Secondary Sector	400
Net factor income from abroad	(–) 100
Value of output in Primary Sector	800
Intermediate consumption in Tertiary Sector	900

(b) (i) What do you mean by anti-dumping duties ? 2

(ii) Describe deterrents to Foreign Direct Investment (FDI) in the country. 2

Marks

11. (a) (i) Describe the objectives of World Trade Organization (WTO). 3

(ii) Examine why General Agreement in Tariff & Trade (GATT) lost its relevance. 2

(b) (i) Explain the objectives of Fiscal Policy. 3

(ii) How do import tariffs affect International Trade ? 2

OR

How do changes in Cash Reserve Ratio (CRR) impact the economy ? 2