

Roll No.....

Total No. of questions – 11

Total No. of Printed Pages -12

Time Allowed – 3 Hours

Maximum Marks - 100

## **FME-C**

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

### **SECTION - A**

Question No. **1** is compulsory.

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

Working notes should form part of the respective answer.

All the calculations should be done upto 3 decimal places.

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1. (a) Door Ltd. is considering an investment of ₹ 4,00,000. This investment is expected to generate substantial cash inflows over the next five years. Unfortunately, the annual cash flows from this investment is uncertain, and the following profitability distribution has been established.

**5**

Annual Cash Flow (₹)	Probability
50,000	0.3
1,00,000	0.3
1,50,000	0.4

At the end of its 5 years life, the investment is expected to have a residual value of ₹ 40,000.

The cost of capital is 5%

- i. Calculate NPV under the three different scenarios.
- ii. Calculate Expected Net Present Value.
- iii. Advise Door Ltd. on whether the investment is to be undertaken.

Year	1	2	3	4	5
DF @ 5%	0.952	0.907	0.864	0.823	0.784

- (b) Alpha Ltd. has furnished the following information :

**5**

- Earning Per Share (EPS) ₹ 4
- Dividend payout ratio 25%
- Market price per share ₹ 50

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- Rate of tax 30%
- Growth rate of dividend 10%

The company wants to raise additional capital of ₹ 10 lakhs including debt of ₹ 4 lakhs. The cost of debt (before tax) is 10% up to ₹ 2 lakhs and 15% beyond that. Compute the after tax cost of equity and debt and also weighted average cost of capital.

- (c) TT Ltd. issued 20,000, 10% convertible debenture of ₹ 100 each with a maturity period of 5 years. At maturity the debenture holders will have the option to convert debentures into equity shares of the company in ratio of 1:5 (5 shares for each debenture). The current market price of the equity share is ₹ 20 each and historically the growth rate of the share is 4% per annum. Assuming tax rate is 25%. Compute the cost of 10% convertible debenture using Approximation Method and Internal Rate of Return Method. **5**

PV Factor are as under:

Year	1	2	3	4	5
PV Factor @ 10%	0.909	0.826	0.751	0.683	0.621
PV Factor @ 15%	0.870	0.756	0.658	0.572	0.497

- (d) Following figures and information were extracted from the company A Ltd. **5**

Earnings of the company ₹ 10,00,000

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Dividend paid	₹ 6,00,000
No. of shares outstanding	2,00,000
Price Earnings Ratio	10
Rate of return on investment	20%

You are required to calculate:

- i. Current Market price of the share
- ii. Capitalisation rate of its risk class
- iii. What should be the optimum pay-out ratio?
- iv. What should be the market price per share at optimal pay-out ratio? (use Walter's Model)

2. Manan Pvt. Ltd. gives you the following information relating to the year ending 31st March, 2020: **10**

1. Current Ratio	2.5 : 1
2. Debt-Equity Ratio	1 : 1.5
3. Return on Total Assets (After Tax)	15%
4. Total Assets Turnover Ratio	2
5. Gross Profit Ratio	20%
6. Stock Turnover Ratio	7
7. Net Working Capital	₹ 13,50,000
8. Fixed Assets	₹ 30,00,000

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9.	1,80,000 Equity Shares of	₹ 10 each
10.	60,000, 9% Preference Shares of	₹ 10 each
11.	Opening Stock	₹ 11,40,000

You are required to calculate:

- a. Quick Ratio
- b. Fixed Assets Turnover Ratio
- c. Proprietary Ratio
- d. Earnings per Share

3. Day Ltd., a newly formed company has applied to the Private Bank for the first time for financing its 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 unit 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

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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	₹ 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.

4. RM Steels Limited requires ₹ 10,00,000 for construction of a new plant. It is considering three financial plans : **10**
- i. The company may issue 1,00,000 ordinary shares at ₹ 10 per share;
  - ii. The company may issue 50,000 ordinary shares at ₹ 10 per share and 5000 debentures of ₹ 100 denominations bearing a 8 per cent rate of interest; and
  - iii. The company may issue 50,000 ordinary shares at ₹ 10 per share and 5,000 preference shares at ₹100 per share

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bearing a 8 per cent rate of dividend.

If RM Steels Limited's earnings before interest and taxes are ₹ 20,000; ₹ 40,000; ₹ 80,000; ₹ 1,20,000 and ₹ 2,00,000, you are required to compute the earnings per share under each of the three financial plans ?

Which alternative would you recommend for RM Steels and why?  
Tax rate is 50%.

5. The capital structure of the Shiva Ltd. consists of equity share capital of ₹ 20,00,000 (Share of ₹ 100 per value) and ₹ 20,00,000 of 10% Debentures, sales increased by 20% from 2,00,000 units to 2,40,000 units, the selling price is ₹ 10 per unit; variable costs amount to ₹ 6 per unit and fixed expenses amount to ₹ 4,00,000. The income tax rate is assumed to be 50%. **10**
- a. You are required to calculate the following:
- i. The percentage increase in earnings per share;
  - ii. Financial leverage at 2,00,000 units and 2,40,000 units.
  - iii. Operating leverage at 2,00,000 units and 2,40,000 units.
- b. Comment on the behaviour of operating and Financial leverages in relation to increase in production from 2,00,000 units to 2,40,000 units.

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- |    |     |   |          |
|----|-----|---|----------|
| 6. | (a) | State four tasks involved to demonstrate the importance of good Financial Management. | <b>4</b> |
|    | (b) | List out the role of Chief Financial Officer in today's World.                        | <b>4</b> |
|    | (c) | What is Risk Adjusted Discount Rate ?   | <b>2</b> |

**OR**

Explain in brief the following bonds: **2**

- (i) Callable Bonds    (ii) Puttable Bonds

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**SECTION – B****Marks**

Question No. 7 is compulsory

Answer any **three** questions form the rest.

Working note should form part of the respective answer.

- 7 (a) Compute M2 supply of money from the following RBI data: **3**
- |   |          |
|---|----------|
| Currency with public                          | 435656.6 |
| 'Other' deposits with RBI                     | 1234.2   |
| Saving deposits with post office saving banks | 647.7    |
| Net time deposits with the banking system     | 514834.3 |
| Demand deposits with banks.                   | 274254.9 |
- (b) Explain the Transactions Motive for holding cash. **2**
- (c) "Money performs many functions in an economy". Explain those functions briefly. **3**
- (d) List the point of difference between fixed exchange rate and floating exchange rate. **2**
8. (a) (i) Why is there a need for the government to resort to resource allocation ? **3**

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- (ii) Why is the central bank referred to as a "banker's bank" ? **2**
- (b) (i) Define the Contractionary Fiscal Policy. What measures under this policy are to be adopted to eliminate the inflationary gap? **3**
- (ii) Explain the role of Monetary Policy Committee (MPC) in India. **2**
9. (a) The price index for exports of Bangladesh in the year 2018-19 (based on 2010-11) was 233.73 and the price index for imports of it was 220.50 (based on 2010-11) **5**
- i. What do these figures mean?
- ii. Calculate the index of terms of trade for Bangladesh.
- iii. How would you interpret the index of terms of trade for Bangladesh?
- (b) Compute GNP at factor cost and NDP at market price using expenditure method from the following data: **5**

(₹ in Crores)

Personal Consumption expenditure	2900
Imports	300
Gross public Investment	500

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Consumption of fixed capital	60
Exports	200
Inventory Investment	170
Government purchases of goods & services	1100
Gross Residential construction Investment	450
Net factor Income from abroad	(-)30
Gross business fixed Investment	410
Subsidies	80

10. (a) (i) How does international trade Increase economic efficiency? Explain. **2**
- (ii) What is meant by expansionary fiscal policy? Under what circumstances do government pursue expansionary policy? **3**
- (b) (i) How do Governments correct market failure resulting from demerit Goods? **3**
- (ii) Explain how the exchange rate value of Indian Rupee will be affected in each of the following cases. What are the possible consequences on exports and imports? **2**
- a. The spot exchange rate changes from ₹ 61/ 1\$ to ₹ 64/1\$
- b. The spot exchange rate changes from ₹ 66/ 1\$ to ₹ 63/1\$

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- |     |     |      |  |          |
|-----|-----|------|--|----------|
| 11. | (a) | (i)  | Describe the benefits and costs of FDI to the host country.                                | <b>3</b> |
|     |     | (ii) | Explain the concept of 'private cost'.   | <b>2</b> |
|     | (b) | (i)  | What do you mean by 'Reserve Money'?   | <b>2</b> |
|     |     | (ii) | What is the meant by 'Statutory Liquidity Ratio'? In which forms this ratio is maintained? | <b>3</b> |

OR

In which sectors Foreign Investment is prohibited in India? **3**