Roll No………………….

Total No. of questions – 11 Total No. of Printed Pages -11

Time Allowed – 3 Hours Maximum Marks - 100

FME-D

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.

FME-D **Marks**

1. (a) Following information relates to RM Co. Ltd. **5**

	(₹)
Total Assets employed	10,00,000
Direct Cost	5,50,000
Other Operating Cost	90,000

Goods are sold to the customers at 150% of direct costs.

50% of the assets being financed by borrowed capital at an interest cost of 8% per annum.

Tax rate is 30%.

You are required to calculate :

i. Net profit margin
ii. Return on Assets
iii. Asset turnover
iv. Return on owners' equity

(b) The following figures are extracted from the annual report of RJ Ltd.: **5**

Net Profit	₹ 50 Lakhs
Outstanding 13% preference shares	₹ 200 Lakhs
No. of Equity Shares	6 Lakhs
Return on Investment	25%
Cost of Capital (K_e)	15%

You are required to compute the approximate dividend pay-out ratio by keeping the share price at ₹ 40 by using Walter's Model.

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

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

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

(d) Kanoria Enterprises wishes to evaluate two mutually exclusive projects X and Y. The particulars are as under : **5**

	Project X (₹)	**Project Y (₹)**
Initial Investment	1,20,000	1,20,000
Estimated cash inflows (per annum for 8 years)		
Pessimistic	26,000	12,000

Marks

Most Likely	28,000	28,000
Optimistic	36,000	52,000

The cut off rate is 14%. The discount factor at 14% are :

Year	1	2	3	4	5	6	7	8	9
Discount factor	0.877	0.769	0.675	0.592	0.519	0.456	0.400	0.351	0.308

Advise management about the acceptability of projects X and Y.

2. Slide Ltd. is preparing a cash flow forecast for the three months period from January to the end of March. The following sales volumes have been forecasted: **10**

Months	December	January	February	March	April
Sales (units)	1,800	1,875	1,950	2,100	2,250

Selling price per unit is ₹ 600. Sales are all on one month credit. Production of goods for sale takes place one month before sales. Each unit produced requires two units of raw materials costing ₹150 per unit. No raw material inventory is held. Raw materials purchases are on one month credit. Variable overheads and wages equal to ₹ 100 per unit are incurred during production and paid in the month of production. The opening cash balance on 1st January is expected to be ₹ 35,000. A long term loan of ₹ 2,00,000 is expected to be received in the month of March. A machine costing ₹ 3,00,000 will be purchased in March.

a. Prepare a cash budget for the months of January, February and March and calculate the cash balance at the end of each month in the three months period.

b. Calculate the forecast current ratio at the end of the three months period.

3. PD Ltd. an existing company, is planning to introduce a new product with projected life of 8 years. Project cost will be ₹ 2,40,00,000. At the end of 8 years no residual value will be realized. Working capital of ₹ 30,00,000 will be needed. The 100% capacity of the project is 2,00,000 units p.a. but the Production and Sales Volume is expected are as under : **10**

Year	Number of Units
1	60,000 units
2	80,000 units
3-5	1,40,000 units
6-8	1,20,000 units

Other Information:

i. Selling price per unit ₹ 200

ii. Variable cost is 40 of sales.

iii. Fixed cost p.a. ₹ 30,00,000.

iv. In addition to these advertisement expenditure will have to be incurred as under:

Year	1	2	3-5	6-8
Expenditure (₹)	50,00,000	25,00,000	10,00,000	5,00,000

v. Income Tax is 25%.

vi. Straight line method of depreciation is permissible for tax purpose.

vii. Cost of capital is 10%.

viii. Assume that loss cannot be carried forward.

Present Value Table

Year	1	2	3	4	5	6	7	8
PVF@ 10	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

Advise about the project acceptability.

4. J Ltd. is considering three financing plans. The-key information is as follows: **10**

a. Total investment to be raised ₹ 4,00,000.

b. Plans showing the Financing Proportion:

Plans	**Equity**	**Debt**	**Preference Shares**
X	100%	-	-
Y	50%	50%	-
Z	50%	-	50%

c. Cost of Debt 10%

Cost of preference shares 10%

d. Tax Rate 50%

e. Equity shares of the face value of ₹10 each will be issued at a premium of ₹ 10 per share.

f. Expected EBIT is ₹ 1,00,000.

You are required to compute the following for each plan :

(i) Earnings per share (EPS)

(ii) Financial break even point

(iii) Indifference Point between the plans and indicate if any of the plans dominate.

 Marks

5. The following data relate to two companies belonging to the same risk class: **10**

Particulars	**A Ltd.**	**B Ltd.**
Expected Net Operating Income	₹ 18,00,000	₹ 18,00,000
12% Debt	₹ 54,00,000	-
Equity Capitalization Rate	-	18

Required:

a. Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming no taxes as per M.M. Approach.

b. Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming 40% taxes as per M.M. Approach.

6 (a) Briefly explain the three finance function decisions. **3**

(b) Explain the steps while using the equivalent annualized criterion. **3**

(c) What is certainty Equivalent? **4**

OR

Explain Electronic Cash Management System. **4**

 Marks

SECTION – B

Question No. **7** is compulsory

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

Working note should form part of the respective answer.

7 (a) Compute reserve money from the following data published by RBI: **3**

	(₹ in crores)
Net RBI credit to the government	8,51,651
RBI Credit to the commercial sector	2,62,115
RBI' s claim on Banks	4.10,315
Government's Currency liabilities to the public	1,85,060
RBI's net foreign assets	72,133
RBI's net non-monetary liabilities	68,032

(b) The table given below shows the number of labour hours required to produce Sugar and Rice in two countries X and Y: **3**

Commodity	**Country X**	**Country Y**
1 Unit of Sugar	2.0	5.0
1 unit of Rice	4.0	2.5

i. Compute the Productivity of labour in both countries in respect of both commodities.

ii. Which country has absolute advantage in production of Sugar?

iii. Which country has absolute advantage in production of Rice?

Marks

(c) Explain 'depreciation' and 'appreciation' of home currency under floating exchange rate. **2**

(d) Explain the role of Government in a market economy as stated by Richard Musgrave. **2**

8 (a) Calculate GNP at market price from the following data using Value Added Method. **5**

(₹ in Crores)

Government Transfer Payments	1800
Value of output in Primary Sector	1500
Value of output in Secondary Sector	2700
Value of output in Tertiary Sector	2100
Net factor income from Abroad	(-) 60
Intermediate Consumption in Primary Sector	750
Intermediate Consumption in Secondary Sector	1200
Intermediate Consumption in Tertiary Sector	900

(b) (i) Due to Recession in an economy, Government expenditure increases by ₹ 6 billion. If Marginal Propensity to Consume (MPC) in the economy is 0.8, compute the increase in GDP. **3**

(ii) Clarify the concept of 'Average Propensity to Save' with the help of formula and example. **2**

Marks

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) (i) Using suitable diagram, explain, how the nominal exchange rate between two countries is determined'? **3**

(ii) What is meant by quasi public goods? **2**

10 (a) (i) What are the modes of Foreign Direct Investment (FDI)? **3**

(ii) Calculate the Average Propensity to Consume (APC) and Average Propensity to Save (APS) from the following data: **2**

Income	**Consumption**
₹ 4,000	₹ 3,000

(b) (i) Explain the consumption function using a suitable table and diagram. **3**

(ii) Distinguish between positive and negative externalities. **2**

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

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

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

(ii) Describe the purposes of Trade Barriers in international trade. **2**

OR

"The deposit multiplier and the money multiplier though closely related are not identical". Explain briefly. **2**