Cost and Management Accounting & Financial Management & Economics for Finance		CA R. K. Mehta
Financial Management & Economics		
Time Allowed : 1 hour 30 Min.	Test-1	Total Marks = 50 Marks

Q.1: Explain Sensitivity Analysis in Context of capital Budgeting. **(4 Marks)**

Q.2: Explain Virtual Banking. **(4 Marks)**

Q.3: A firm has current sales of ` 2,56,48,750. In order to boost the sales, it is considering relaxation in credit policy by increasing it from 45 days to 60 days. As a result, the bad debts will increase from 1.5% to 2% of sales. The firm's sales are expected to increase by 10%. The variable costs are 72% of sales. The tax rate is 35% and the required rate of return after-tax is 15% should the firm change its credit period. **(5Marks)**

Q.4: A company made comparative study of several mutually exclusive capital projects. This study itself involved capital expenditure of ` 1,50,000. The life of the project is 5 years. Total cost of the project including initial study expenditure is ` 60,00,000. In additional, there is working capital requirement of ` 15,00,000. The company charges depreciation on straight line method and the scrap value after 5 years is ` 7,50,000. The amount of after-tax profits is mentioned below –

Year	**1**	**2**	**3**	**4**	**5**
Profits after tax (PAT) (`)	7,50,000	12,00,000	15,00,000	9,00,000	7,50,000
PVT @ 12%	0.8929	0.7972	0.7118	0.6355	0.5674

You are **required** to compute NPV of the project and recommend the acceptability of the project.**(5 Marks)**

Q.5: A new customer has approached a firm to establish new business connection. The customer require 1.5 month of credit of credit. If the proposal is accepted, the sales of the firm will go up by ` 2,40,000 per annum. The new customer is being considered as a member of 10% risk of non-payment group. The cost of sales amounts to 80% of sales. The tax rate is 30% and the desired rate of return is 40% (after tax). The investment in debtors is decided on sales basis. **(8 Marks)**

Q.6: A company is presently having a credit sales of ` 12 lakh. The existing credit terms are 1/10 net 45 days, and average collection period is 30 days. The current bad debts loss is 1.5%. In order to accelerate the collection process further as also to increase sales, the company is contemplating liberalization of its existing credit terms to 2/10 net 45 days. It is expected that sales are likely to increase 1/3rd of existing sales, bad debts increase to 2% of sales and average collection period to decline to 20 days.

The contribution to sales ratio of the company is 22% and opportunity cost of investment in receivables is 15% (pre-tax). 50% and 80% of customers in term of sales revenue are expected to avail cash discount under existing and liberalization scheme respectively. Tax rate is 30%. **Should** the company change its credit terms? (Assume 360 days in a year). **(8Marks)**

Q.7: What are the benefits of Foreign Direct Investment? **(4Marks)**

Q.8: Explain Foreign Exchange Market, its Functions and its kinds. **(4Marks)**

Q.9: What are the Constraints of WTO? **(4Marks)**

Q.10: Explain New Trade Theory (NTT) in relation to international trade. **(4Marks)**