F.M.& Economics for Finance		
Time Allowed : 3 hours	Test - 4	Total Marks = 100 Marks

PART- A

(Financial Management)

Note: Question no. 1 is compulsory. Attempt any 4 questions out of remaining 5 questions.

Q.1 (a): X Ltd. is considering the following two alternative financial plans:

Particulars	Plan - I (₹)	Plan - II (₹)
Equity Shares of ₹ 10 each	4,00,000	4,00,000
12% Debentures	2,00,000	---
Preferential Shares of ₹ 100 each	---	2,00,000
	6,00,000	**6,00,000**

The Indifference Point between the plans is ₹ 2,40,000. Corporate tax rate is 30%. **Calculate** the Rate of dividend on Preference share. **(5 Marks)**

Q.1 (b): There are two firms P and Q which are identical expect P does not use any debt in its capital structure while Q has ₹ 8,00,000; 9% debentures in its capital structure. Both the firms have earnings before interest and tax of ₹ 2,60,000 per annum and the capitalization rate is 10%. The corporate tax of 30%, **calculate** the value of these firms according to MM Hypothesis. **(5 Marks)**

Q.1 (c): The Following Information related to Beta limited for the year ended 31st March:

Net Working capital - ₹ 12,00,000	Working capital turnover ratio - 5 times
Fixed assets to Proprietors' Fund Ratio - 0.75	Return on equity (ROE) - 15%

There is no Debt Capital. You are **required** to calculate: -

(a) Proprietors' Fund **(b)** Fixed Assets **(c)** Net profit Ratio **(5 Marks)**

Q.1 (d): The Balance Sheet of Alpha Numeric Company is given below: -

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity capital (₹ 10 per share)	90,000	Net fixed assets	2,25,000
10% long term debt	1,20,000	Current assets	75,000
Retained earnings	30,000		
Current liabilities	60,000		
	3,00,000		**3,00,000**

The company's total assets turnover ratio is 3, its fixed operating cost is ₹ 1,50,000 and its variable operating cost ratio is 50%. The income-tax rate is 50%. You are **required** to calculate the different type of leverages for the company. **(5 Marks)**

Q.2 (a): The following is the capital structure of a company: -

Particulars	Book Value (₹)	Market Value (₹)
Equity shares at ₹ 100 each	80,00,000	1,60,00,000
9% cumulative preference shares at ₹ 100 each	20,00,000	24,00,000
11% Debentures	60,00,000	66,00,000
Retained earnings	40,00,000	Nil

The current market price of the company's equity share is ₹ 200. For the last year, the company had paid equity dividend of ₹ 25 and its dividend is likely to grow 5% every year. The corporate tax rate is 30% and shareholders personal income tax rate is 20%.

Calculate: -

1. Cost of capital for each source of capital.

2. WACC on the basis of Book Value Weights

3. WACC on the basis of Market Value Weights **(7 Marks)**

Q.2 (b): Explain Linter's Model of Dividend. **(3 Marks)**

Q.3: Prepare an estimate of net working capital requirement for the WCM Ltd. adding 10% for contingencies from the information **given below**: -

Estimated cost per unit of production ₹ 170 includes raw materials ₹ 80, direct labour ₹ 30 and overheads (exclusive of depreciation) ₹ 60. Selling price is ₹ 200 per unit. Level of activity per annum 1,04,000 units. Raw material in stock: average 4 weeks; work-in-progress: average 2 weeks; finished goods in stock: average 4 weeks; credit allowed by suppliers: average 4 weeks; credit allowed to debtors: average 8 weeks; lag in payment of wages: average 1.5 weeks, and cash at bank is expected to be ₹ 25,000. You may assume that production is carried on evenly throughout the year (52 weeks). All sales are on credit basis only. You may state your assumptions, if any. **(10 Marks)**

Q.4: Your Company is considering to acquire an additional computer to supplement its time-share computer services to its clients. It has two options:

(a) To purchase the computer for ₹ 22 lakhs.

(b) To lease the computer for 3 years from a leasing company for ₹ 5 lakhs an annual lease rent plus 10% of gross time-share service revenue. The agreement also requires an additional payment of ₹ 6 lakhs at the end of the third year. Lease rents are payable at the year-end and the computer reverts to the lessor after the contract period.

The company estimates that the computer under review will be worth ₹ 10 lakhs at the end of the third year. Forecast revenues are:

Year	**1**	**2**	**3**
Amount (₹ In Lakhs)	22.5	25	27.5

Your company will borrow at 16% interest to finance the acquisition of the computer. Repayments are to be made according to the following schedule:

Year/end	**1**	**2**	**3**
Principal (₹ '000)	500	850	850
Interest (₹ '000)	352	272	136

The company uses straight line method (SLM) to depreciate its assets and pays 40% tax on its income. The management approaches the company secretary for advice. Which alternative would he recommend and why? The cash flows are to be discounted @ 16%. **(10 Marks)**

Q.5 (a): Discuss the changing scenario of financial management in India. **(4 Marks)**

Q.5 (b): Explain Angel Financing. **(4 Marks)**

Q.5 (c): Explain "Double Option Bonds ". **(2 Marks)**

Part – B

(Economics for finance)

Note: Question no. 1 is compulsory. Attempt any 3 Questions out of remaining 4 Questions.

Q.1 (a): Personal Income V/s Private Income. **(4 Marks)**

Q.1 (b): Explain "Gross domestic Capital Formation". **(3 Marks)**

Q.1 (c): Comparative Cost Theory v/s Factor Endowment Theory. **(3 Marks)**

Q.2 (a): Explain the objectives of measurement of National Income. **(5 Marks)**

Q.2 (b): Explain Mercantilists theory of International Trade. **(3 Marks)**

Q.2 (c): What do you understand by Average Propensity to consume (APC)? **(2 Marks)**

Q.3 (a): What are Technical Measures in relation to Non- Tariff Measures? **(4 Marks)**
Q.3 (b): FDI v/s FPI **(4 Marks)**
Q.3 (c): Ad-valorem Tariff. **(2 Marks)**

Q.4 (a): Explain Public Debt as an Investment of Fiscal Policy. **(4 Marks)**
Q.4 (b): How Government intervenes to correct the externalities. **(4 Marks)**
Q.4 (c): What is Nation's Debt? **(2 Marks)**

Q.5 (a): In relation to money supply, what is credit Multiplier? **(4 Marks)**
Q.5 (b): What are the general characteristics which the money should possess? **(4 Marks)**
Q.5 (c): Explain REPO Rate. **(2 Marks)**