Part A [Financial Management 30 Marks]

Q.1: (a) Kindly observe the income statement of two companies:-

	Company X	Company Y
Sales (₹)	30,00,000	30,00,000
(-) Variable cost (₹)	(10,50,000)	(19,50,000)
Contribution	19,50,000	10,50,000
(-) Fixed Cost	(16,50,000)	7,80,000)
Operating Profit (EBIT)	3,00,000	2,70,000

Required:-
   (1) If sales of both the companies increase by 20%, by what percentage (%) will their EBIT gets increased.
   (2) Calculate the degree of operating leverage of both the companies by applying both the formulae.
   (3) Suppose future conditions are expected to be favourable and you, as investment consultant, wants to make investment by purchasing the shares of company X or company Y. Which company will you select?

(5 Marks)

(b) There are two companies, A Ltd. and B Ltd., both having capital Employed of ₹ 5,00,000. A Ltd. is fully equity financed whereas B Ltd. is 50% equity financed and 50% debt financed @ 9%. Both the companies are identical from business point of view and their return on capital employed (ROCE) is 20%.

(i) B Ltd. argues that it can obtain the situation of higher EPS as compared to A Ltd. Is this statement made by B Ltd. correct? (Face Value of equity share is ₹ 10)

(ii) When both companies have equal capital employed and equal ROCE, why is that there is difference in EPS? **(5 Marks)**

Note: - Tax Rate is 50%.

Q.2: WX Ltd. has a machine which has been in operation for 3 years. Its remaining estimated useful life is 8 years with no salvage value in the end. Its current market value is ₹2,00,000. The company is considering a proposal to purchase a new model of machine to replace the existing machine. The relevant informations are as follows:

Particulars	Existing Machine	New Machine
Cost of machine (₹)	3,30,000	10,00,000
Estimated life	11 years	8 years
Salvage value (₹)	Nil	40,000
Annual output	30,000 units	75,000 units
Selling price per unit (₹)	15	15
Annual operating hours	3,000	3,000
Material cost per unit (₹)	4	4
Labour cost per hour (₹)	40	70
Indirect cash cost per annum (₹)	50,000	65,000

The company follows the straight line method of depreciation. The corporate tax rate is 30 percent and WX Ltd, does not make any investment, if it yields less than 12 percent. Present value of annuity of ₹1 at 12% rate of discount for 8 years is 4.968. Present value of ₹1 at 12% rate of discount, received at the end of 8th year is 0.404. Ignore capital gain tax. Advise WX Ltd. whether the existing machine should be replaced or not.

(10 Marks)

Q.3: A company is evaluating two mutually exclusive projects, namely, project A and Project B.

Project A

Investment (made initially) ₹ 36,000.

Net Present Value

- → ₹ 15,000 with 20% probability
- → ₹ 12,000 with 30% probability
- → ₹ 6,000 with 30% probability
- → ₹ 3,000 with 20% probability

Project B

Investment (made initially) ₹ 30,000.

Net Present Value

- → ₹ 15,000 with 10% probability
- → ₹ 12,000 with 40% probability
- → ₹ 6,000 with 40% probability
- → ₹ 3,000 with 10% probably

Required:-

    (1) For both the projects, compute expected NPV.

    (2) Compute the risk associated with each project.

    (3) Compute profitability Index (PI) of each project.

    (4) Which project is to be selected and why?

(10 Marks)

Part B [Economics for Finance 20 Marks]

Q.4: (a) Explain Mercantilist Theory of International Trade. **(2 Marks)**

(b) Dumping is regarded as a serious problem in international trade. To counter this, what kind of duty can be imposed by importing country? Also briefly mention the consequences of dumping which needs to be addressed. **(3 Marks)**

(c) After GATT, WTO monitored the functioning of international trade. Briefly, discuss the emergence of WTO along with its objectives **(3 Marks)**

(d)   Nominal Exchange Rate = ₹ 70 per $

       Price Index in India = 116

       Price Index in USA = 112

       Calculate Real Exchange Rate **(2 Marks)**

Q.5: (a) Recession and inflation both are dangerous to the economic structure. In order to tackle this, the government can increase or decrease its current and capital expenditures. What are your views in this regard. **(3 Marks)**

(b) "Fiscal Policy is an effective system for reducing inequalities in Income and wealth". Given your comments **(3 Marks)**

(c) According to Richard Musgrave, what are various types of functions to be performed by government in order to bring stability. **(2 Marks)**

(d) Briefly explain Pollution Tax **(2 Marks)**